

# BITOU

## MUNICIPALITY

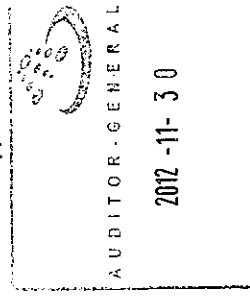


[These financial statements have not been audited]

## FINANCIAL STATEMENTS

30 JUNE 2012

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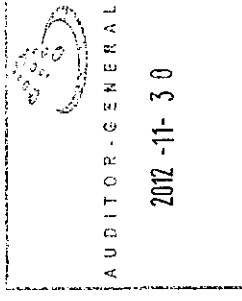


# BITOU LOCAL MUNICIPALITY

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# BITOU MUNICIPALITY

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

### GENERAL INFORMATION

#### NATURE OF BUSINESS

Bitou Municipality is a local municipality performing the functions as set out in the Constitution. (Act no 105 of 1996)  
This in effect means that the municipality provide services like water, electricity, sewerage and sanitation to the community.  
Bitou Municipality also serves as an agent to Provincial Government in providing Housing to the community

#### COUNTRY OF ORIGIN AND LEGAL FORM

South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act. (Act no 117 of 1998)

#### JURISDICTION

The Bitou Municipality includes the following areas:

*Plettenbergbay*

#### MEMBERS OF THE MAYORAL COMMITTEE

Executive Mayor	<i>Councillor M Booysen</i>
Deputy Executive Mayor	<i>Councillor A. B. van Rhyner</i>
Speaker	<i>Councillor C.L. Dreyer</i>
Mayoral Committee Member	<i>Councillor A.R. Olivier</i>
Mayoral Committee Member	<i>Councillor E.E. Paulse</i>

#### ORDINARY COUNCILLORS

Councillor	<i>Councillor N M De Waal</i>
Councillor	<i>Councillor L Jonas</i>
Councillor	<i>Councillor M M Mbali</i>
Councillor	<i>Alderman LL Mvimbi</i>
Councillor	<i>Councillor L M Seyisi</i>
Councillor	<i>Councillor JJN Stuurman</i>
Councillor	<i>Councillor SE Gcabayi</i>
Councillor	<i>Councillor JWG Brummer</i>

#### ACTING MUNICIPAL MANAGER

*Mr A Paulse*

#### ACTING CHIEF FINANCIAL OFFICER

*Mr AJ Bredenhann*

#### REGISTERED OFFICE

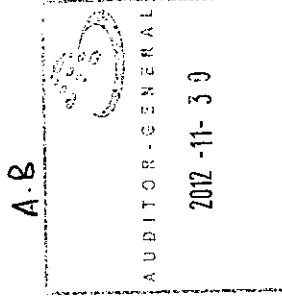
*Sewell Street, Plettenbergbay, 6600*  
*Private Bag X 1002. Plettenbergbay, 6600*

#### AUDITORS

*Office of the Auditor General*

#### PRINCIPLE BANKERS

*Standard Bank, Plettenbergbay*

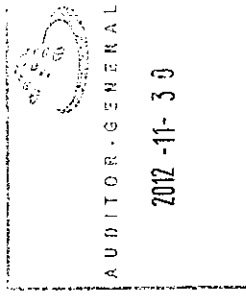


2011 / 2012

## MEMBERS OF THE BITOU LOCAL MUNICIPALITY

WARD	COUNCILLOR
1 Valley/Keurbooms/Cowie/Uplands	<i>Councillor N M de Waal</i>
2 Plett South & North	<i>Councillor C L Dreyer</i>
3 Qolweni/Bossiesgif/Pinetree/Portion of New Horizons	<i>Councillor L M Seyisi</i>
4 Portion of New Horizons/Portion of KwaNokuthula	<i>Councillor L Jonas</i>
5 Kwanokuthula	<i>Councillor M M Mbali</i>
6 Kwanokuthula	<i>Councillor S E Gcabayi</i>
7 Kranshoek/Harkerville/portion of KwaNokuthula	<i>Councillor J J N Stuurman</i>

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### APPROVAL OF FINANCIAL STATEMENTS

I am responsible for the preparation of these annual financial statements, which are set out on pages 1 to 79. Therefore, In terms of Section 126 (1) of the Municipal Finance Management Act, I have signed it on behalf of the Municipality.

*Mr A Paulse*

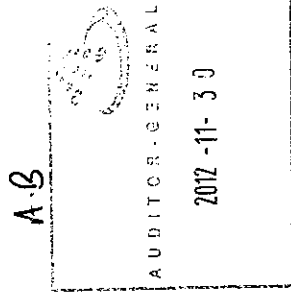
**Acting Municipal Manager**

**Date**

# BITOU LOCAL MUNICIPALITY

## STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2012

	Notes	2012 R	(Restated) 2011 R
<b>NET ASSETS AND LIABILITIES</b>			
<b>Net Assets</b>		<b>448,300,511</b>	<b>439,192,889</b>
Capital Replacement Reserve	2	-	300,001
Housing Development fund	2	-	1,041,622
Accumulated Surplus/(Deficit)		448,300,511	437,851,266
<b>Non-Current Liabilities</b>		<b>179,618,508</b>	<b>142,768,642</b>
Long-term Liabilities	3	114,194,733	94,754,432
Employee benefits	4	57,541,072	40,667,623
Non-Current Provisions	5	7,882,702	7,346,587
<b>Current Liabilities</b>		<b>97,888,705</b>	<b>123,117,862</b>
Consumer Deposits	6	4,476,945	4,281,691
Current Employee benefits	7	14,754,777	14,516,810
Provisions	8	850,000	-
Payables from exchange transactions	9	20,934,324	58,952,152
Unspent Conditional Government Grants and Receipts	10	40,914,812	33,980,814
Unspent Public Contributions	11	3,646,550	2,982,630
Taxes	12	2,345,377	-
Operating Lease Liability	22	521,923	552,476
Current Portion of Long-term Liabilities	3	9,443,996	7,851,289
<b>Total Net Assets and Liabilities</b>		<b>725,807,724</b>	<b>705,079,393</b>
<b>ASSETS</b>			
<b>Non-Current Assets</b>		<b>650,655,276</b>	<b>638,930,089</b>
Property, Plant and Equipment	13	544,148,627	527,957,718
Investment Property	14	97,254,277	97,422,384
Intangible Assets	15	4,765,648	9,287,460
Non-Current Investments	17	4,275,037	3,971,733
Long-Term Receivables	18	211,686	290,794
<b>Current Assets</b>		<b>75,152,448</b>	<b>66,149,304</b>
Inventory	19	1,908,362	2,180,046
Non Current Assets Held for sale	16	-	37,500
Receivables from exchange transactions	20	31,290,858	25,154,466
Receivables from non-exchange transactions	21	12,972,726	11,576,049
Unpaid Conditional Government Grants and Receipts	10	280,000	-
Operating Lease Asset	22	2,887	4,117
Taxes	12	-	10,438,207
Current Portion of Long-term Receivables	18	77,680	75,307
Cash and Cash Equivalents	23	28,619,934	16,683,612
<b>Total Assets</b>		<b>725,807,724</b>	<b>705,079,393</b>

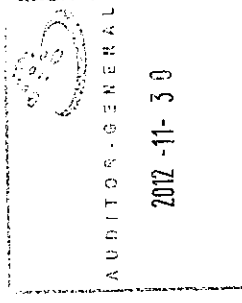


**BITOU LOCAL MUNICIPALITY**

**STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2012**

	Notes	2012 (Actual) R	2011 (Restated) R	Correction of error R	2011 (Previously reported) R
<b>REVENUE</b>					
Revenue from Non-exchange Transactions		136,781,553	182,438,136	1,048,007	181,390,129
<b>Taxation Revenue</b>		<b>69,812,089</b>	<b>65,414,837</b>	<b>1,048,007</b>	<b>64,366,830</b>
Property taxes	24	69,812,089	65,414,837	1,048,007	64,366,830
<b>Transfer Revenue</b>		<b>61,825,808</b>	<b>111,243,179</b>	-	<b>111,243,179</b>
Government Grants and Subsidies-capital	25	26,696,693	61,215,142	-	61,215,142
Government Grants and Subsidies	25	32,113,444	46,391,679	-	46,391,679
Public Contributions and Donations		3,015,671	3,636,357	-	3,636,357
<b>Other Revenue</b>		<b>5,143,656</b>	<b>5,780,121</b>	-	<b>5,780,121</b>
Third Party Payments		-	54,988	-	54,988
Fines		5,143,656	5,725,133	-	5,725,133
<b>Revenue from Exchange Transactions</b>		<b>170,557,298</b>	<b>149,446,230</b>	<b>2,454,240</b>	<b>146,991,990</b>
Service Charges	27	160,141,637	139,480,025	2,454,240	137,025,785
Rental of Facilities and Equipment		763,295	900,588		900,588
Interest Earned - external Investments		1,613,757	1,183,619		1,183,619
Interest Earned - outstanding debtors		3,161,664	2,779,932		2,779,932
Agency Services	28	760,645	-		-
Other Income		3,630,946	5,040,831		5,040,831
Licences and Permits		94,461	61,235		61,235
Gain on disposal of Property, Plant and Equipment		390,893	-		-
<b>Total Revenue</b>		<b>307,338,851</b>	<b>331,884,366</b>	<b>3,502,247</b>	<b>328,382,119</b>
<b>EXPENDITURE</b>					
Employee related costs	29	100,821,794	102,158,196		102,158,196
Remuneration of Councilors	30	3,735,333	2,992,823		2,992,823
Debt Impairment	31	10,467,713	12,124,452		12,124,452
Collection Cost		995,711	1,226,434		1,226,434
Depreciation and Amortisation	32	19,015,151	16,591,128	49,709	16,541,420
Impairments	33	5,229,810	266,064		266,064
Repairs and Maintenance		10,240,307	14,792,999		14,792,999
Actuarial losses	4	11,195,964	5,967,722		5,967,722
Finance Charges	34	12,791,947	10,495,871		10,495,871
Bulk Purchases	35	56,600,095	50,581,992		50,581,992
Contracted services		10,998,681	8,472,288		8,472,288
Operating Grant Expenditure		10,998,745	27,980,900		27,980,900
General Expenses		45,115,476	49,371,031		49,371,031
Loss on Disposal of PPE	36	24,500	734,365		734,365
<b>Total Expenditure</b>		<b>298,231,229</b>	<b>303,756,266</b>	<b>49,709</b>	<b>303,706,558</b>
<b>NET SURPLUS FOR THE YEAR</b>		<b>9,107,622</b>	<b>28,128,100</b>	<b>3,452,539</b>	<b>24,675,561</b>

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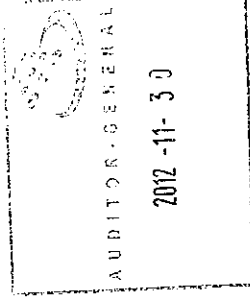


**BITOU LOCAL MUNICIPALITY**

**STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2012**

	Housing Development Fund	Capital Replacement Reserve	Accumulated Surplus/ (Deficit)	Total
R	R	R	R	R
<b>2010</b>				
Balance at 1 JULY 2010	1,041,622	1,060,218	406,037,365	408,139,205
Correction of error	-	-	2,925,584	2,925,584
<b>2011</b>				
Restated Balance at 1 JULY 2010	1,041,622	1,060,218	408,962,949	411,064,789
Net Surplus for the year	-	-	28,128,100	28,128,100
Property Plant and Equipment purchased	-	(21,294,022)	21,294,022	-
Transfer to CRR	-	20,533,805	(20,533,805)	-
Restated Balance at 30 JUNE 2011	1,041,622	300,001	437,851,266	439,192,889
<b>2012</b>				
Net Surplus for the year	-	-	9,107,622	9,107,622
Transfer from CRR - (Fund closed)	-	(300,001)	300,001	-
Transfer from Housing Development Fund (Fund closed)	(1,041,622)	-	1,041,622	-
Balance at 30 JUNE 2012	-	-	448,300,511	448,300,511

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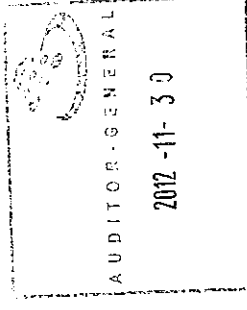


# BITOU LOCAL MUNICIPALITY

## CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2012

	Notes	30 JUNE 2012 R	30 JUNE 2011 R
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
<b>Receipts</b>			
Ratepayers and other		245,143,914	224,058,578
Government - operating		32,113,444	46,391,679
Government - capital		26,696,693	61,215,142
Interest		4,775,421	3,963,551
<b>Payments</b>			
Suppliers and employees		(269,318,653)	(236,268,013)
Finance charges	34	(12,791,947)	(10,495,871)
<b>Cash generated by operations</b>	38	<b>26,618,872</b>	<b>88,865,066</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Purchase of Property, Plant and Equipment	13	(35,221,460)	(102,749,556)
Purchase of Intangible Assets		(462,783)	(1,471,883)
Proceeds on Disposal of Fixed Assets			2,814,639
Decrease in non-current receivables		76,734	87,720
Increase in non-current Investments		(303,304)	(302,476)
<b>Net Cash from Investing Activities</b>		<b>(35,910,813)</b>	<b>(101,621,557)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Loans repaid		(9,297,184)	(6,582,075)
New loans raised		30,330,191	19,084,299
Increase in Consumer Deposits		195,254	333,811
<b>Net Cash from Financing Activities</b>		<b>21,228,262</b>	<b>12,836,035</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>11,936,321</b>	<b>79,543</b>
Cash and Cash Equivalents at the beginning of the year		16,683,613	16,604,070
Cash and Cash Equivalents at the end of the year	39	28,619,934	16,683,613
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>11,936,321</b>	<b>79,543</b>

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## **BITOU MUNICIPALITY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

#### **1. ACCOUNTING PRINCIPLES AND POLICIES APPLIED IN THE FINANCIAL STATEMENTS**

##### **1.1. BASIS OF PREPARATION**

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

The annual financial statements have been prepared in accordance with the Municipal Finance Management Act (MFMA) and effective standards of Generally Recognised Accounting Practices (GRAP), including any interpretations and directives issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

Accounting policies for material transactions, events or conditions not covered by the GRAP reporting framework, have been developed in accordance with paragraphs 8,10 and 11 of GRAP 3 (Revised – February 2010) and the hierarchy approved in Directive 5 issued by the Accounting Standards Board

The Municipality resolved to early adopt the following GRAP standards which have been issued but are not effective yet.

<b>Standard</b>	<b>Description</b>	<b>Effective Date</b>
GRAP 1 (Revised – Mar 2012)	Presentation of Financial Statements	1 April 2013
GRAP 3 (Revised – Mar 2012)	Accounting Policies, Changes in Accounting Estimates and Errors	1 April 2013
GRAP 9 (Revised – Mar 2012)	Revenue from Exchange Transactions	1 April 2013
GRAP 12 (Revised – Mar 2012)	Inventories	1 April 2013
GRAP 13 (Revised – Mar 2012)	Leases	1 April 2013
GRAP 16 (Revised – Mar 2012)	Investment Property	1 April 2013
GRAP 17 (Revised – Mar 2012)	Property, Plant and Equipment	1 April 2013
GRAP 21 (Original – Mar 2009)	Impairment of non-cash-generating assets	1 April 2012
GRAP 23 (Original – Feb 2008)	Revenue from Non-Exchange Transactions	1 April 2012
GRAP 25 (Original – Nov 2009)	Employee Benefits	1 April 2013
GRAP 26 (Original – Mar 2009)	Impairment of cash-generating assets	1 April 2012
GRAP 27 (Revised – Mar 2012)	Agriculture	1 April 2013
GRAP 31 (Revised – Mar 2012)	Intangible Assets	1 April 2013
GRAP 104 (Original – Oct 2009)	Financial Instruments	1 April 2012
IGRAP 16 (Issued – Mar 2012)	Intangible Assets – Website Costs	1 April 2013

AUDITOR GENERAL

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## **BITOU MUNICIPALITY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

A summary of the significant accounting policies, which have been consistently applied except where an exemption or transitional provision has been granted, are disclosed below.

Assets, liabilities, revenue and expenses have not been offset except when offsetting is permitted or required by a Standard of GRAP.

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant notes to the Financial Statements.

#### **1.2. PRESENTATION CURRENCY**

Amounts reflected in the financial statements are in South African Rand. Financial values are rounded to the nearest one Rand. No foreign exchange transactions are included in the statements.

#### **1.3. GOING CONCERN ASSUMPTION**

These annual financial statements have been prepared on a going concern basis.

#### **1.4. COMPARATIVE INFORMATION**

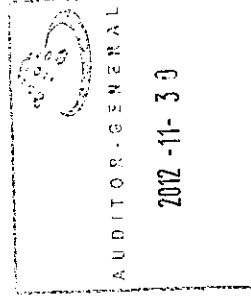
When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated, unless a standard of GRAP does not require the restatements of comparative information. The nature and reason for the reclassification is disclosed. Where material accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

#### **1.5 MATERIALITY**

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decision or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatements judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor. Materiality is determined as 1% of total expenditure.

#### **1.6 PRESENTATION OF BUDGET INFORMATION**

As noted, GRAP 24 is not effective yet, however budget information required in terms of GRAP 1 (Revised – March 2012) paragraph 11 to 14 have been disclosed in the financial statements. The presentation of budget information was prepared in accordance with the best practice guidelines issued by National Treasury.



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**BITOU MUNICIPALITY**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**1.7 STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE**

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the Municipality:

<b>Standard</b>	<b>Description</b>	<b>Effective Date</b>
<b>GRAP 6 (Revised – Nov 2010)</b>	<p><b>Consolidated and Separate Financial Statements</b></p> <p>The objective of this Standard is to prescribe the circumstances in which consolidated and separate financial statements are to be prepared and the information to be included in those financial statements so that the consolidated financial statements reflect the financial performance, financial position and cash flows of an economic entity as a single entity.</p> <p>No significant impact is expected as the Municipality does not have any entities at this stage to be consolidated.</p>	<b>Unknown</b>
<b>GRAP 7 (Revised – Mar 2012)</b>	<p><b>Investments in Associate</b></p> <p>This Standard prescribes the accounting treatment for investments in joint ventures where the investment in the associate leads to the holding of an ownership interest in the form of a shareholding or other form of interest in the net assets.</p> <p>No significant impact is expected as the Municipality does not participate in such business transactions.</p>	<b>1 April 2013</b>
<b>GRAP 8 (Revised – Nov 2010)</b>	<p><b>Interest in Joint Ventures</b></p> <p>The objective of this Standard is to prescribe the accounting treatment of jointly controlled operations, jointly controlled assets and jointly controlled entities and to provide alternatives for the recognition of interests in jointly controlled entities.</p> <p>No significant impact is expected as the Municipality is not involved in any joint ventures.</p>	<b>Unknown</b>
<b>GRAP 18 (Original – Feb 2011)</b>	<p><b>Segment Reporting</b></p> <p>The objective of this Standard is to establish principles for reporting financial information by segments.</p>	<b>Unknown</b>


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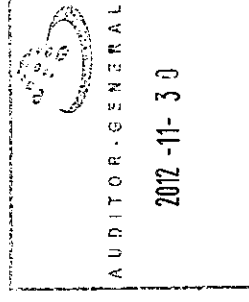
**BITOU MUNICIPALITY**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

	Information to a large extent is already included in the appendices to the annual financial statements which do not form part of the audited financial statements.	
<b>GRAP 24 (Original – Nov 2007)</b>	<p><b>Presentation of Budget Information in Financial Statements</b></p> <p>This Standard requires a comparison of budget amounts and the actual amounts arising from execution of the budget to be included in the financial statements of entities that are required to, or elect to, make publicly available their approved budget(s) and for which they are, therefore, held publicly accountable. The Standard also requires disclosure of an explanation of the reasons for material differences between the budget and actual amounts.</p> <p>Information to a large extent is already included in the notes to the annual financial statements and the impact is assessed to not be significant.</p>	<b>1 April 2012</b>
<b>GRAP 103 (Original – July 2008)</b>	<p><b>Heritage Assets</b></p> <p>The objective of this Standard is to prescribe the accounting treatment for heritage assets and related disclosure requirements.</p> <p>No adjustments necessary as the Municipality has no significant heritage assets other than the assets currently accounted for in terms of GRAP 17.</p>	<b>1 April 2012</b>
<b>GRAP 105 (Original – Nov 2010)</b>	<p><b>Transfer of Functions Between Entities Under Common Control</b></p> <p>The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control.</p> <p>No significant impact is expected as the Municipality does not participate in such business transactions.</p>	<b>Unknown</b>
<b>GRAP 106 (Original – Nov 2010)</b>	<p><b>Transfer of Functions Between Entities Not Under Common Control</b></p> <p>The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control.</p>	<b>Unknown</b>

  
 AUDITOR-GENERAL  
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## BITOU MUNICIPALITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	No significant impact is expected as the Municipality does not participate in such business transactions.	
<b>GRAP 107 (Original – Nov 2010)</b>	<b>Mergers</b> The objective of this Standard is to establish accounting principles for the combined entity and combining entities in a merger.  No significant impact is expected as the Municipality does not participate in such business transactions.	<b>Unknown</b>
<b>IGRAP 12</b>	<b>Jointly Controlled Entities non-monetary contributions</b> The objective of this Interpretation of the Standard is to prescribe the treatment of profit/loss when an asset is sold or contributed by the venture to a Jointly Controlled Entity (JCE).  No significant impact is expected as the Municipality does not have any JCE's at this stage.	

These standards, amendments and interpretations will not have a significant impact on the Municipality once implemented.

#### 1.8. RESERVES

##### 1.8.1 Capital Replacement Reserve (CRR)

In order to finance the provision of infrastructure and other items of property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus/ (deficit) to the CRR. The cash in the CRR can only be utilized to finance items of property, plant and equipment. The CRR is reduced and the accumulated surplus/ (deficit) are credited by a corresponding amount when the amounts in the CRR are utilized. The CRR was closed at year end as it was not relevant any more.

##### 1.8.2 Housing Development Fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from National and Provincial Government, used to finance housing selling schemes undertaken by the Municipality, were extinguished on 1 April 1998 and transferred to the Housing Development Fund. Housing selling schemes both completed and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sale of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing. Operational deficits are also allowed to be transferred. This fund was closed on year end.

## **BITOU MUNICIPALITY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

#### **1.9. LEASES**

##### **1.9.1 Municipality as Lessee**

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the Municipality. Property, plant and equipment or intangible assets (excluding licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights) subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the Municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

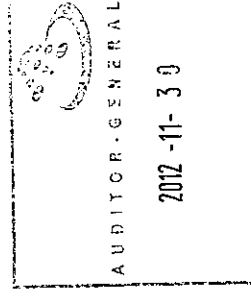
Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to de-recognition of financial instruments are applied to lease payables.

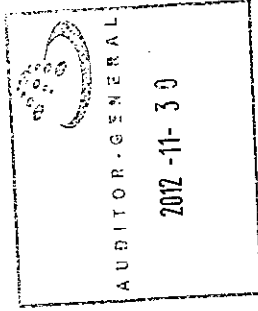
Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined expenses and actual payments made will give rise to a liability. The Municipality shall recognise the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a straight-line basis.

##### **1.9.2 Municipality as Lessor**

Under a finance lease, the Municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the Municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease instalments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to de-recognition and impairment of financial instruments are applied to lease receivables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease revenue is recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined revenue and actual payments received will give rise to an asset. The Municipality shall recognise the aggregate cost of incentives as a reduction of rental revenue over the lease term, on a straight-line basis.





## BITOU MUNICIPALITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

#### **1.10. UNSPENT CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS**

Conditional government grants are subject to specific conditions. If these specific conditions are not met, the monies received are repayable.

Unspent conditional grants are financial liabilities that are separately reflected on the Statement of Financial Position. They represent unspent government grants, subsidies and contributions from the public.

This liability always has to be cash-backed. The following provisions are set for the creation and utilisation of this creditor:

- Unspent conditional grants are recognised as a liability when the grant is received.
- When grant conditions are met an amount equal to the conditions met are transferred to revenue in the Statement of Financial Performance.
- The cash which backs up the creditor is invested as individual investment or part of the general investments of the Municipality until it is utilised.
- Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the Municipality's interest it is recognised as interest earned in the Statement of Financial Performance.

#### **1.11. UNPAID CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS**

Unpaid conditional grants are assets in terms of the Framework that are separately reflected on the Statement of Financial Position. The asset is recognised when the Municipality has an enforceable right to receive the grant or if it is virtually certain that it will be received based on that grant conditions have been met. They represent unpaid government grants, subsidies and contributions from the public.

The following provisions are set for the creation and utilisation of the grant is receivables:

- Unpaid conditional grants are recognised as an asset when the grant is receivable.

#### **1.10 UNSPENT PUBLIC CONTRIBUTIONS**

Public contributions are subject to specific conditions. If these specific conditions are not met, the monies received are repayable.

Unspent public contributions are financial liabilities that are separately reflected on the Statement of Financial Position. They represent unspent contributions from the public.

This liability always has to be cash-backed. The following provisions are set for the creation and utilisation of this creditor:

- Unspent public contributions are recognised as a liability when the grant is received.
- When grant conditions are met an amount equal to the conditions met are transferred to revenue in the Statement of Financial Performance.
- The cash which backs up the creditor is invested as individual investment or part of the general investments of the municipality until it is utilised.
- Interest earned on the investment is treated in accordance with the public contribution conditions. If it is payable to the funder it is recorded as part of the

## **BITOU MUNICIPALITY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

creditor. If it is the municipality's interest it is recognised as interest earned in the Statement of Financial Performance.

#### **1.12. PROVISIONS AND CONTINGENCIES**

Provisions are recognised when the Municipality has a present legal or constructive obligation as a result of past events, it is possible that an outflow of resource embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate of future outflows of resources. Where the effect is material, non-current provisions are discounted to their present value using a discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

The Municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is possible.

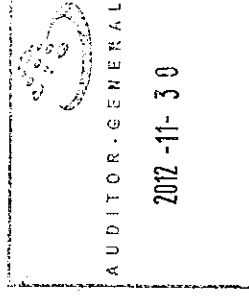
Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

- (a) The Municipality has a detailed formal plan for the restructuring identifying at least:
- the business or part of a business concerned;
  - the principal locations affected;
  - the location, function and approximate number of employees who will be compensated for terminating their services;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented.
- (b) The Municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the reporting date.

If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision shall be de-recognised..





**BITOU MUNICIPALITY**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**1.13. EMPLOYEE BENEFITS**

**(a) *Post-Retirement Medical Obligations***

This is a defined benefit plan. The Municipality provides post-retirement medical benefits by subsidizing the medical aid contributions of certain retired staff according to the rules of the medical aid funds. Council pays 60% to 70% as contribution and the remaining 40% to 30% are paid by the members. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The present value of the defined benefit liability is actuarially determined in accordance with GRAP 25 – Employee benefits (using a discount rate applicable to high quality government bonds). The plan is unfunded.

These contributions are charged to the Statement of Financial Performance when employees have rendered the service entitling them to the contribution. The liability was calculated by means of the projected unit credit actuarial valuation method. The liability in respect of current pensioners is regarded as fully accrued, and is therefore not split between a past (or accrued) and future in-service element. The liability is recognised at the fair value of the obligation. Payments made by the Municipality are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are charged against the Statement of Financial Performance as employee benefits upon valuation.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, is charged or credited to the Statement of Financial Performance in the period that it occurs. These obligations are valued periodically by independent qualified actuaries.

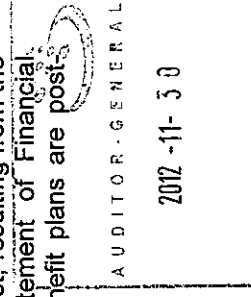
**(b) *Long Service Awards***

Long service awards are provided to employees who achieve certain pre-determined milestones of service within the Municipality. The Municipality's obligation under these plans is valued by independent qualified actuaries periodically and the corresponding liability is raised. Payments are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are charged against the Statement of Financial Performance as employee benefits upon valuation.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, is charged or credited to the Statement of Financial Performance in the period that it occurs. These obligations are valued periodically by independent qualified actuaries.

**(c) *Ex gratia Gratuities***

Ex gratia gratuities are provided to employees that were not previously members of a pension fund. The Municipality's obligation under these plans is valued by independent qualified actuaries and the corresponding liability is raised. Payments made by the Municipality are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are charged against the Statement of Financial Performance as employee benefits upon valuation. Defined benefit plans are post-employment plans other than defined contribution plans.



## **BITOU MUNICIPALITY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, is charged or credited to the Statement of Financial Performance in the period that it occurs. These obligations are valued periodically by independent qualified actuaries.

#### **(d) Provision for Staff Leave**

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at year end and also on the total remuneration package of the employee.

Accumulating leave is carried forward and can be used in future periods if the current period's entitlement is not used in full. All unused leave will be paid out to the specific employee at the end of that employee's employment term.

Accumulated leave is vesting.

#### **(e) Staff Bonuses Accrued**

Liabilities for staff bonuses are recognised as they accrue to employees. The liability at year end is based on bonus accrued at year end for each employee.

#### **(f) Provision for Performance Bonuses**

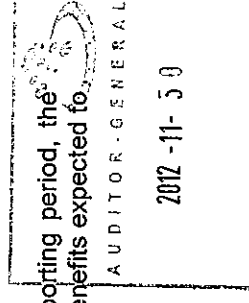
A provision, in respect of the liability relating to the anticipated costs of performance bonuses payable to Section 57 employees, is recognised as it accrue to Section 57 employees. Municipal entities' performance bonus provisions are based on the employment contract stipulations as well as previous performance bonus payment trends.

#### **(g) Pension and retirement fund obligations**

The Municipality provides retirement benefits for its employees and councillors. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year they become payable. Defined benefit plans are post-employment benefit plans other than defined contribution plans. The defined benefit funds, which are administered on a provincial basis, are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities. The contributions and lump sum payments are charged against income in the year they become payable. Sufficient information is not available to use defined benefit accounting for a multi-employer plan. As a result, defined benefit plans have been accounted for as if they were defined contribution plans.

#### **(h) Other Short-term Employee Benefits**

When an employee has rendered service to the entity during a reporting period, the entity recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.



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## **BITOU MUNICIPALITY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

#### **1.14. BORROWING COSTS**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The amount of borrowing costs that the Municipality capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period. The Municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. . Borrowing costs incurred other than on qualifying assets are recognised as an expense in the Statement of Financial Performance when incurred.

#### **1.15. PROPERTY, PLANT AND EQUIPMENT**

##### **1.15.1 Initial Recognition**

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the entity, and the cost or fair value of the item can be measured reliably. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the Municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the assets acquired is initially measured at fair value (the cost). It the acquired

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## **BITOU MUNICIPALITY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

#### **1.15.2 Subsequent Measurement – Cost Model**

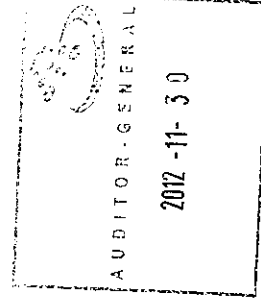
Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the Municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

#### **1.15.3 Depreciation and Impairment**

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The annual depreciation rates are based on the following estimated useful lives:

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## BITOU MUNICIPALITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

Electricity Assets

Class	Asset Type	Expected Useful Life
High Voltage	HV Overhead Line	50
High Voltage	HV Substation Battery	10
High Voltage	HV Substation Electrical Plant	50
High Voltage	HV Substation Yard Stone	15
High Voltage	HV Underground Cable	50
Medium Voltage	Ground Mounted Transformer	50
Medium Voltage	Mini Sub-Station	50
Medium Voltage	MV Overhead Line	50
Medium Voltage	MV Substation Battery	10
Medium Voltage	MV Substation_MV Switchgear	50
Medium Voltage	MV Underground Cable	50
Medium Voltage	Pole Mounted Transformer	50
Medium Voltage	Ring Main Unit	50
Low Voltage	LV Conductor Network	50
Low Voltage	Streetlight	50
Low Voltage	LV Consumer Connection	50

Water Assets

Class	Asset Type	Expected Useful Life
Borehole	Civil Structure	50
Borehole	Electrical Plant	15
Borehole	Telemetry	30
Borehole	Mechanical Plant	15
Dam	Civil Structure	100
Spring Protection	Civil Structure	50
Bulk Water Channel	Concrete	50
Bulk Water Pipeline	AC	60
Bulk Water Pipeline	FC	60
Bulk Water Pipeline	GRP	100
Bulk Water Pipeline	HDPE	100
Bulk Water Pipeline	PVC	60
Bulk Water Pipeline	Steel	100
Bulk Water Pipeline	uPVC	100
Pump Station	Civil Structure	50
Pump Station	Electrical Plant	15
Pump Station	Telemetry	30
Pump Station	Mechanical Plant	30
Reservoir	Civil Structure	50



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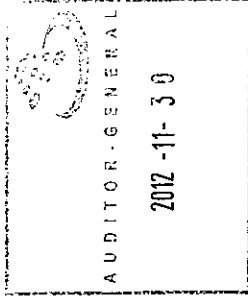
## BITOU MUNICIPALITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

Reservoir	Electrical Plant	15
Reservoir	Telemetry	30
Reticulation Pipeline	AC	60
Reticulation Pipeline	CI	100
Reticulation Pipeline	Clay	60
Reticulation Pipeline	FC	60
Reticulation Pipeline	HDPE	100
Reticulation Pipeline	PVC	60
Reticulation Pipeline	Steel	100
Reticulation Pipeline	uPVC	100
Water Treatment Works	Civil Structure	50
Water Treatment Works	Mechanical Plant	15
Water Treatment Works	Electrical Plant	15
Water Treatment Works	Telemetry	30

**Sanitation Assets**

Class	Asset Type	Expected Useful Life
Bulk Sewer Pipeline	AC	60
Bulk Sewer Pipeline	CI	100
Bulk Sewer Pipeline	Concrete	60
Bulk Sewer Pipeline	GRP	60
Bulk Sewer Pipeline	HDPE	60
Bulk Sewer Pipeline	PF	60
Bulk Sewer Pipeline	PVC	60
Bulk Sewer Pipeline	SG	60
Bulk Sewer Pipeline	uPVC	60
Bulk Sewer Pipeline	Weholite	60
Pump Station	Civil Structure	50
Pump Station	Electrical Plant	15
Pump Station	Telemetry	30
Pump Station	Mechanical Plant	30
Sewage Treatment Works	Civil Structure	50
Sewage Treatment Works	Mechanical Plant	15
Sewage Treatment Works	Electrical Plant	15
Sewage Treatment Works	Telemetry	30
Sewer Reticulation Pipeline	AC	60
Sewer Reticulation Pipeline	CI	100
Sewer Reticulation Pipeline	Concrete	60
Sewer Reticulation Pipeline	GRP	60
Sewer Reticulation Pipeline	HDPE	60
Sewer Reticulation Pipeline	PF	60
Sewer Reticulation Pipeline	PVC	60
Sewer Reticulation Pipeline	SG	60
Sewer Reticulation Pipeline	Steel	60
Sewer Reticulation Pipeline	uPVC	60



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**BITOU MUNICIPALITY**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

Sewer Reticulation Pipeline	Vitreous Clay	60
Sewer Reticulation Pipeline	Weholite	60

**Road Transport Assets**

Class	Asset Type	Expected Useful Life
Overhead Gantry	Overhead Gantry	100
Parking Area	Surfacing Asphalt	50
Road Asphalt	UA_Surfacing	15
Road Asphalt	UA Base	30
Road Asphalt	UA_Structure	100
Road Asphalt	UB_Surfacing	15
Road Asphalt	UB Base	30
Road Asphalt	UB_Structure	100
Road Asphalt	UC_Surfacing	20
Road Asphalt	UC Base	40
Road Asphalt	UC_Structure	100
Road Asphalt	UD_Surfacing	25
Road Asphalt	UD Base	50
Road Asphalt	UD_Structure	100
Road Unpaved	Surface	7
Road Unpaved	Structure	25
Signalized Intersection	Signalized Intersection	15
Guardrail	Guardrail	15
Bridge	Bridge	100
Retaining Wall	Retaining Wall	100
Taxi Rank	Commuter Shelter	15
Taxi Rank	Surfacing Asphalt	15
Footpath	Footpath	20-30

**Storm Water Assets**

Class	Asset Type	Expected Useful Life
Attenuation Pond	Attenuation Pond	25
Covered Channel	Lined Channel	50
Culvert	Major Culvert	50
Culvert	Minor Culvert	20
Erosion Protection	Erosion Protection	20
Open Channel	Lined Channel	50
Open Channel	Unlined Channel	10
Reticulation Pipeline	Concrete	50

**Solid Waste Assets**

Class	Asset Type	Expected Useful Life
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## BITOU MUNICIPALITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

Containers	Containers	20
Landfill	Leachate System	50
Landfill	Weighbridge	50
Landfill	Earth Embankment	25
Landfill	Pump Station Electrical Plant	15
Landfill	Pump Station Civil Structure	50
Landfill	Leachate System	50
Landfill	Pump Station Telemetry	30
Landfill	Pump Station Mechanical Plant	15
Transfer Stations	Building	30
Transfer Stations	Civil Structure	8
Transfer Stations	Mechanical Plant	15

Other Assets

Class	Expected Useful life (EUL)
Buildings	30
Specialist vehicles	10-20
Other vehicles	3-6
Office equipment	5-10
Furniture and fittings	5-10
Watercraft	15
Bins and containers	5
Specialised plant and Equipment	5-15
Other plant and Equipment	2-5
Quarries	25
Emergency equipment	5-15
Computer equipment	5-10

Community Assets

Class	Expected Useful life (EUL)
Buildings	30
Recreational Facilities	15-20
Security	3-5
Halls	30
Libraries	30
Parks and gardens	15-20
Other assets	10-30

Lease Assets

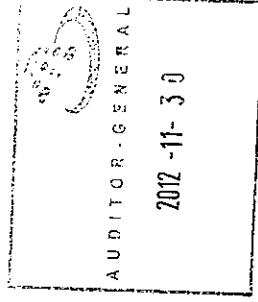
Class	Expected Useful life (EUL)
Office equipment	3-6
Other assets	5-6



## **BITOU MUNICIPALITY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

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Property, plant and equipment are reviewed at each reporting date for any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The impairment charged to the Statement of Financial Performance is the excess of the carrying value over the recoverable amount.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of impairment is recognised in the Statement of Financial Performance.

#### **1.15.4 De-recognition**

Items of property, plant and equipment are derecognised when the asset is disposed or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

#### **1.16. INTANGIBLE ASSETS**

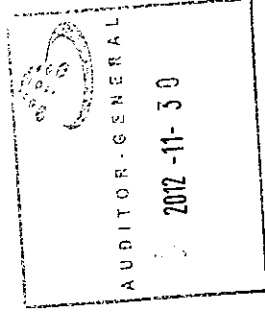
##### **1.16.1 Initial Recognition**

An intangible asset is an identifiable non-monetary asset without physical substance.

An asset meets the identifiability criterion in the definition of an intangible asset when it:

- is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
- arises from contractual rights (including rights arising from binding arrangements) or other legal rights (excluding rights granted by statute), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

The Municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the Municipality and the cost or fair value of the asset can be measured reliably.



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## BITOU MUNICIPALITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

#### **1.16.2 Subsequent Measurement – Cost Model**

Intangible assets are subsequently carried at cost less accumulated amortisation and any accumulated impairments losses. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

#### **1.16.3 Amortisation and Impairment**

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. Amortisation of an asset begins when it is available for use, i.e. when it is in the condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are amortised separately. The estimated useful lives, residual values and amortisation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The annual amortisation rates are based on the following estimated useful lives:

Computer Software	5-10 years
Computer Software Licences	5 years

#### **1.16.4 De-recognition**

Intangible assets are derecognised when the asset is disposed or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

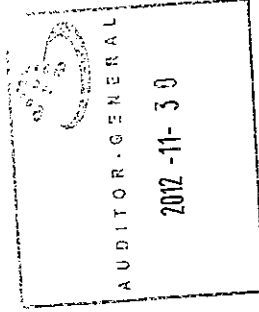
### **1.17. INVESTMENT PROPERTY**

#### **1.17.1 Initial Recognition**

Investment property shall be recognised as an asset when and only when:

- it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity, and
- the cost or fair value of the investment property can be measured reliably.

Investment property includes property (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or



## BITOU MUNICIPALITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

supply of goods or services, or the sale of an asset in the ordinary course of operations. Property with a currently undetermined use is also classified as investment property.

At initial recognition, the Municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition. The cost of self-constructed investment property is measured at cost.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Municipality accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

#### **1.17.2 Subsequent Measurement – Cost Model**

Subsequent to initial recognition, items of investment property are measured at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

#### **1.17.3 Depreciation and Impairment – Cost Model**

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

<u>Investment Property</u>	<u>Years</u>
Buildings	30

#### **1.17.4 De-recognition**

Investment property is derecognised when it is disposed or when there are no further economic benefits expected from the use of the investment property. The gain or loss arising on the disposal or retirement of an item of investment property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

#### **1.18. NON-CURRENT ASSETS HELD FOR SALE**

##### **1.18.1 Initial Recognition**

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

#### **1.18.2 Subsequent Measurement**

Non-current assets held for sale (or disposal group) are measured at the lower of carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

#### **1.19. IMPAIRMENT OF NON-FINANCIAL ASSETS**

##### **1.19.1 Cash-generating assets**

Cash-generating assets are assets held with the primary objective of generating a commercial return.

The Municipality assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the municipality estimates the asset's recoverable amount.

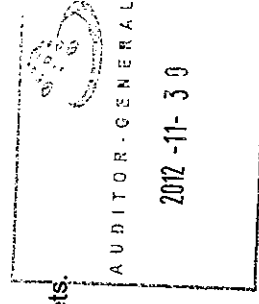
An asset's recoverable amount is the higher of an asset's or cash-generating units (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. Impairment losses are recognised in the Statement of Financial Performance in those expense categories consistent with the function of the impaired asset.

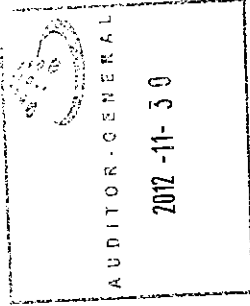
An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Municipality estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Financial Performance.

##### **1.19.2 Non-cash-generating assets**

Non-cash-generating assets are assets other than cash-generating assets.

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## BITOU MUNICIPALITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

The Municipality assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Municipality estimates the asset's recoverable service amount.

An asset's recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use. If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss recorded in the Statement of Financial Performance.

The value in use of a non-cash-generating asset is the present value of the asset's remaining service potential. The present value of the remaining service potential of the asset is determined using any one of the following approaches:

- *depreciation replacement cost approach* - the present value of the remaining service potential of an asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.
- *restoration cost approach* - the cost of restoring the service potential of an asset to its pre-impaired level. Under this approach, the present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is usually determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.
- *service unit approach* - the present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. As in the restoration cost approach, the current cost of replacing the remaining service potential of the asset before impairment is usually determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

The Municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the Municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for an asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset is increased to its recoverable service amount. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying

## **BITOU MUNICIPALITY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods. Such a reversal of an impairment loss is recognised in the Statement of Financial Performance.

#### **1.20. INVENTORIES**

##### **1.20.1 Initial Recognition**

Inventories comprise current assets held for sale, consumption or distribution during the ordinary course of business. Inventories shall be recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the entity, and the cost of the inventories can be measured reliably. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus non-recoverable taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the Municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

##### **1.20.2 Subsequent Measurement**

Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

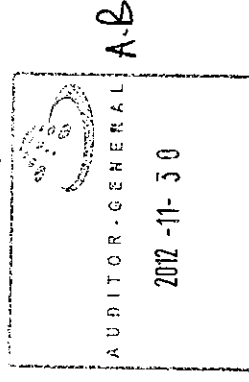
The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

In general, the basis of allocating cost to inventory items is the weighted average method.

Cost of land held for sale is assigned by using specific identification of their individual costs.

#### **1.21. FINANCIAL INSTRUMENTS**

Financial instruments recognised on the Statement of Financial Position include receivables (both from exchange transactions and non-exchange transactions), cash and cash equivalents, annuity loans and payables (both form exchange and non-exchange transactions).



## **BITOU MUNICIPALITY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

#### **1.21.1 Initial Recognition**

Financial instruments are initially recognised when the Municipality becomes a party to the contractual provisions of the instrument at fair value plus, in the case of a financial asset or financial liability not at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability

#### **1.21.2 Subsequent Measurement**

Financial Assets are categorised according to their nature as either financial assets at fair value, financial assets at amortised cost or financial assets at cost. Financial Liabilities are categorised as either at fair value, financial liabilities at cost or financial liabilities carried at amortised cost ("other"). The subsequent measurement of financial assets and liabilities depends on this categorisation.

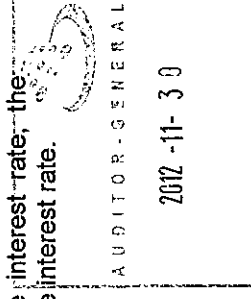
##### **1.21.2.2 Receivables**

Receivables are classified as financial assets at amortised cost, and are subsequently measured amortised cost using the effective interest rate method.

For amounts due from debtors carried at amortised cost, the Municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. Objective evidence of impairment includes significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 90 days overdue). If the Municipality determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Financial Performance. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the municipality. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in the Statement of Financial Performance.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate, if material. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.



## BITOU MUNICIPALITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

#### 1.21.2.3 Payables and Annuity Loans

Financial liabilities consist of payables and annuity loans. They are categorised as financial liabilities held at amortised cost, are initially recognised at fair value and subsequently measured at amortised cost using an effective interest rate, which is the initial carrying amount, less repayments, plus interest.

#### 1.21.2.4 Cash and Cash Equivalents

Cash includes cash on hand (including petty cash) and cash with banks. Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, highly liquid deposits and net of bank overdrafts. The Municipality categorises cash and cash equivalents as financial assets carried at amortised cost.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities: other financial liabilities carried at amortised cost.

#### 1.21.2.5 Non-Current Investments

Financial instruments, which include, investments in municipal entities and fixed deposits invested in registered commercial banks, are stated at amortised cost.

Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

The carrying amounts of such investments are reduced to recognise any decline, other than a temporary decline, in the value of individual investments.

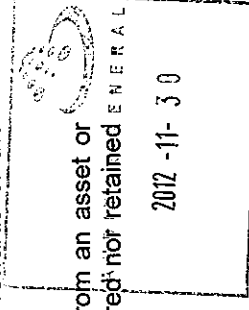
### 1.21.3 **De-recognition of Financial Instruments**

#### 1.21.3.1 Financial Assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

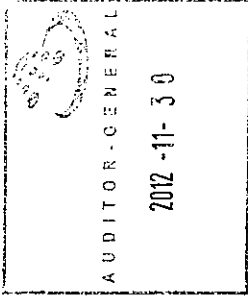
- the rights to receive cash flows from the asset have expired; or
- the Municipality has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Municipality has transferred substantially all the risks and rewards of the asset, or (b) the Municipality has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Municipality has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained



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## BITOU MUNICIPALITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

substantially all the risks and rewards of the asset nor transferred control of the asset, the old asset is derecognised and a new asset is recognised to the extent of the Municipality's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Municipality could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Municipality's continuing involvement is the amount of the transferred asset that the Municipality may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

#### 1.21.3.2 Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the Statement of Financial Performance.

#### 1.21.4 **Offsetting of Financial Instruments**

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously

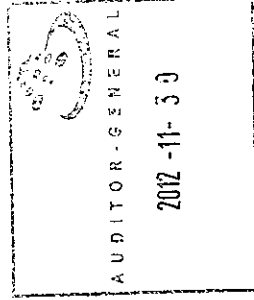
#### 1.22. REVENUE

##### 1.22.1 **Revenue from Non-Exchange Transactions**

Revenue from non-exchange transactions refers to transactions where the Municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. At the time of initial recognition the full amount of revenue is recognised. If the



## BITOU MUNICIPALITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

Municipality does not enforce its obligation to collect the revenue, is a subsequent event. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis as an exchange transaction.

Fine Revenue constitutes both spot fines and summonses. Revenue from spot fines and summonses is recognised as revenue when the receivables meet the definition of an asset and satisfy the criteria for recognition as an asset.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the Municipality. Where public contributions have been received but the Municipality has not met the related conditions, it is recognised as an unspent public contribution (liability).

Revenue from third parties i.e. insurance payments for assets impaired, are recognised when it can be measured reliably and is not being offset against the related expenses of repairs or renewals of the impaired assets.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the Municipality.

All unclaimed deposits are initially recognised as a liability until 36 months expires, when all unclaimed deposits into the Municipality's bank account will be treated as revenue. This policy is in line with prescribed debt principle as enforced by the law. Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No. 56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

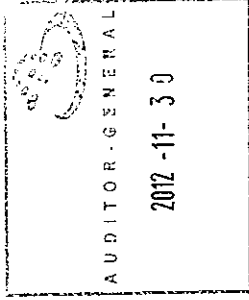
Revenue shall be measured at the fair value of the consideration received or receivable.

When, as a result of a non-exchange transaction, a Municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the present obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability will be recognised as revenue.

#### 1.22.2 Revenue from Exchange Transactions

Revenue from exchange transactions refers to revenue that accrued to the Municipality directly in return for services rendered/ goods sold, the value of which approximates the consideration received or receivable. At the time of initial recognition the full amount of revenue is recognised. If the Municipality does not enforce its obligation to collect the revenue, is a subsequent event.

Service charges relating to electricity and water are based on consumption and a basic charge as per Council resolution. Meters are read on a monthly basis and are



**BITOU MUNICIPALITY**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

recognised as revenue when invoiced. Where the Municipality was unable to take the actual month's reading of certain consumers, a provisional estimate of consumption for that month will be created. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale. It is estimated that pre-paid electricity is consumed within 5 to 7 days after date of purchase. The pre-paid electricity sold, but not consumed yet at year-end is disclosed as under- Payables from Exchange Transactions in the Statement of Financial Position.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse points per property.

Service charges relating to sanitation (sewerage) are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage. In the case of residential property a fixed monthly tariff is levied and in the case of commercial property a tariff is levied based on the number of sewerage connection on the property. Service charges based on a basic charge as per Council resolution.

Interest revenue is recognised using the effective interest rate method.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Dividends are recognised on the date that the Municipality becomes entitled to receive the dividend.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant tariff. This includes the issuing of licences and permits.

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods are passed to the consumer.

Revenue arising out of situations where the Municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

Revenue shall be measured at the fair value of the consideration received or receivable.

The amount of revenue arising on a transaction is usually determined by agreement between the entity and the purchaser or user of the asset or service. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the entity.

In most cases, the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. However, when the inflow of cash or cash equivalents is deferred, the fair value of the

## **BITOU MUNICIPALITY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

consideration may be less than the nominal amount of cash received or receivable. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either.

- The prevailing rate for a similar instrument of an issuer with a similar credit rating; or
- A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue.

When goods or services are exchanged or swapped for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction that generates revenue. When goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction that generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

#### **1.23. RELATED PARTIES**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

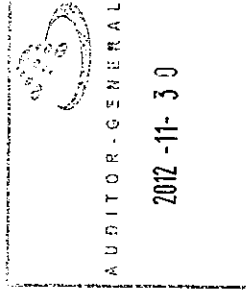
Related parties include:

- Entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the reporting entity;
- Individuals owning, directly or indirectly, an interest in the reporting entity that gives them significant influence over the entity, and close members of the family of any such individual;
- Key management personnel, and close members of the family of key management personnel; and
- Entities in which a substantial ownership interest is held, directly or indirectly, by any person described in the 2<sup>nd</sup> and 3<sup>rd</sup> bullet, or over which such a person is able to exercise significant influence.

Key management personnel include:

- All directors or members of the governing body of the entity, being the Executive Mayor, Deputy Mayor, Speaker and members of the Mayoral Committee.
- Other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting entity being the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

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**BITOU MUNICIPALITY**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**1.24. UNAUTHORISED EXPENDITURE**

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in a form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No. 56 of 2003). Unauthorised expenditure is accounted for as an expense (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

**1.25. IRREGULAR EXPENDITURE**

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No. 56 of 2003), the Municipal Systems Act (Act No. 32 of 2000), the Public Office Bearers Act, and (Act. No. 20 of 1998) or is in contravention of the Municipality's Supply Chain Management Policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

**1.26. FRUITLESS AND WASTEFUL EXPENDITURE**

Fruitless and wasteful expenditure is expenditure that was made in vain and could have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

**1.27. CONTINGENT LIABILITIES**

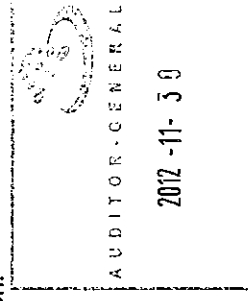
A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. A contingent liability could also be a present obligation that arises from past events, but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to the obligation or the amount of the obligation cannot be measured with sufficient reliability.

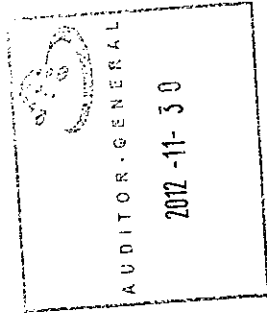
Management judgement is required when recognising and measuring contingent liabilities.

**1.28. PRESENTATION OF BUDGET INFORMATION**

The presentation of budget information was prepared in accordance with the best practice guidelines issued by National Treasury. The presentation of budget information is in line with the basis of accounting as per the GRAP Framework. GRAP 24: Presentation of Budget Information in Financial Statements is not yet effective. This standard brings new rules in respect of presentation of budget information.

AB





## BITOU MUNICIPALITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

#### 1.29. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Municipality's accounting policy, management has made the following significant accounting judgements, estimates and assumptions, which have the most significant effect on the amounts recognised in the financial statements:

##### ***Postretirement medical obligations, Long service awards and Ex gratia gratuities***

The cost of post-retirement medical obligations, long service awards and ex-gratia gratuities are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Major assumptions used are disclosed in note 4 of the Annual Financial Statements. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

##### ***Impairment of Receivables***

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per service-identifiable categories across all classes of debtors.

##### ***Property, Plant and Equipment***

The useful lives of property, plant and equipment are based on management's estimation. Infrastructure's useful lives are based on technical estimates of the practical useful lives for the different infrastructure types, given engineering technical knowledge of the infrastructure types and service requirements. For other assets and buildings management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

Management referred to the following when making assumptions regarding useful lives and residual values of Property, Plant and Equipment.

- The useful life of movable assets was determined using the age of similar assets available for sale in the active market. Discussions with people within the specific industry were also held to determine useful lives.
- Local Government Industry Guides was used to assist with the deemed cost and useful life of infrastructure assets.
- The Municipality referred to buildings in other municipal areas to determine the useful life of buildings. The Municipality also consulted with engineers to support the useful life of buildings, with specific reference to the structural design of buildings.

For deemed cost applied to other assets as per adoption of Directive 7, management used the depreciation cost method which was based on assumptions about the remaining duration of the assets.

The cost for depreciated replacement cost was determined by using either one of the following:

## **BITOU MUNICIPALITY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

- cost of items with a similar nature currently in the Municipality's asset register;
- cost of items with a similar nature in other municipalities' asset registers, given that the other municipality has the same geographical setting as the Municipality and that the other municipality's asset register is considered to be accurate;
- cost as supplied by suppliers.

For deemed cost applied to land and buildings as per adoption of Directive 7, management made use of an independent valuator. The valuator's valuation was based on assumptions about the market's buying and selling trends and the remaining duration of the assets.

#### ***Intangible Assets***

The useful lives of intangible assets are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate.

Management referred to the following when making assumptions regarding useful lives of intangible assets:

- Reference was made to intangibles used within the Municipality and other municipalities to determine the useful life of the assets.

For deemed cost applied to intangible assets as per adoption of Directive 7, management used the depreciation cost method which was based on assumptions about the remaining duration of the assets.

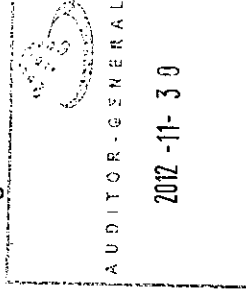
#### ***Investment Property***

The useful lives of investment property are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their economic lives, and in what condition they will be at that time.

Management referred to the following when making assumptions regarding useful lives and valuation of investment property:

- The Municipality referred to buildings in other municipal areas to determine the useful life of buildings.
- The Municipality also consulted with professional engineers and qualified valuers to support the useful life of buildings.

For deemed cost applied to Investment Property as per adoption of Directive 7, management made use of an independent valuator. The valuator's valuation was based on assumptions about the market's buying and selling trends and the remaining duration of the assets.



## **BITOU MUNICIPALITY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

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#### ***Provisions and Contingent Liabilities***

Management judgement is required when recognising and measuring provisions and when measuring contingent liabilities. Provisions are discounted where the time value effect is material.

#### ***Revenue Recognition***

In making their judgement, management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-Exchange Transactions.). Specifically, whether the Municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been performed. Revenue from the issuing of spot fines and summonses has been recognised on the accrual basis using estimates of future collections based on the actual results of prior periods.

#### ***Provision for Landfill Sites***

The provision for rehabilitation of the landfill site is recognised as and when the environmental liability arises. The provision is calculated by a qualified environmental engineer. The provision represents the net present value of the expected future cash flows to rehabilitate the landfill site at year end. To the extent that the obligations relate to an asset, it is capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are charged to the Statement of Financial Performance.

Management referred to the following when making assumptions regarding provisions:

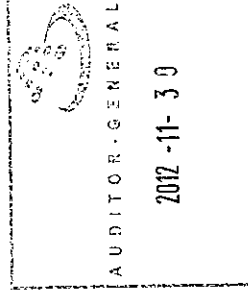
- Professional engineers were utilised to determine the cost of rehabilitation of landfill sites as well as the remaining useful life of each specific landfill site.
- Interest rates (investment rate) linked to prime was used to calculate the effect of time value of money.

#### ***Provision for Task Implementation***

The provision at 30 June for Task Implementation represents the Municipality's obligation towards qualifying officials as a result of a new national grading system for municipalities which came into effect on 1 October 2009. The calculation was based on the difference between the current basic salaries compared to the basic salary as per new TASK grading. The difference between these two packages was backdated to the implementation date of the TASK grading system.

#### ***Provision for Staff leave***

Staff leave is accrued to employees according to collective agreements. Provision is made for the full cost of accrued leave at reporting date. This provision will be realised as employees take leave or when employment is terminated.



AB



**BITOU MUNICIPALITY**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

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***Provision for Performance bonuses***

The provision for performance bonuses represents the best estimate of the obligation at year end and is based on historic patterns of payment of performance bonuses. Performance bonuses are subject to an evaluation by Council.

***Pre-paid electricity estimation***

Pre-paid electricity is only recognised as income once the electricity is consumed. The pre-paid electricity balance (included under payables) represents the best estimate of electricity sold at year end that is still unused. The units sold in June, more than the average pre-paid electricity sold per month for the period July to May, is use as a basis during the year under review as an estimate in calculating the unused units.

***Componentisation of Infrastructure assets***

All infrastructure assets are unbundled into their significant components in order to depreciate all major components over the expected useful lives. The cost of each component is estimated based on the current market price of each component, depreciated for age and condition and recalculated to cost at the acquisition date if known or to the date of initially adopting the standards of GRAP.

**1.30. TAXES – VALUE ADDED TAX**

Revenue, expenses and assets are recognised net of the amounts of value added tax. The net amount of Value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

**1.31. CAPITAL COMMITMENTS**

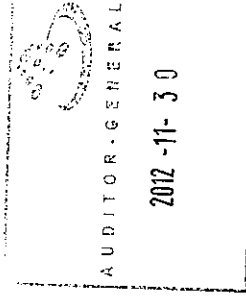
Capital commitments disclosed in the financial statements represents the balance committed to capital projects on reporting date that will be incurred in the period subsequent to the specific reporting date.

**1.32. AMENDED DISCLOSURE POLICY**

Amendments to accounting policies are reported as and when deemed necessary based on the relevance of any such amendment to the format and presentation of the financial statements. The principal amendments to matters disclosed in the current financial statements include fundamental errors, and the treatment of assets financed by external grants.

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A.B





2012-11-30  
AUDITOR GENERAL

A.B.

	Cost	Accumulated Depreciation and Impairment Losses	Carrying Value
Restated Opening Balance	166,956,292	129,895,884	37,109,408
Corrections	892,092	167,887,384	13,649,786
Disposals	3,999,501	3,999,501	-
Under Construction	13,649,786	-	-
Additions	374,804,713	56,079,370	318,725,343
Restated Opening Balance	566,852	130,444,948	335,140
Corrections	-	3,447,368	52,133
Disposals	-	-	-
Impairments	8,289	-	-
Closing Balance	233,060	165,303,591	21,654,128
Restated Opening Balance	21,654,128	-	-
Corrections	33,814	21,687,642	1,411,585
Disposals	-	-	-
Additions	14,111,585	-	-
Restated Opening Balance	161,765	-	-
Impairments	-	-	-
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30 JUNE 2011

**BITOU MUNICIPALITY**  
**NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**BITOU MUNICIPALITY**  
**NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

2

**NET ASSET RESERVES**

	2012 R	2011 R
Capital Replacement Reserve	-	300,001
Housing Development Fund	-	1,041,622
<b>Total Net Assets Reserve and Liabilities</b>	<b>-</b>	<b>1,341,623</b>

3

**LONG-TERM LIABILITIES**

Annuity Loans - At amortised cost	122,570,577	100,673,515
Capitalised Lease Liability - At amortised cost	1,086,152	1,932,207
<b>Current Portion transferred to Current Liabilities</b>	<b>123,638,729</b>	<b>102,605,722</b>
Annuity Loans - At amortised cost	(9,443,996)	(7,851,289)
Capitalised Lease Liability - At amortised cost	(8,561,831)	(6,722,942)
	(882,165)	(1,128,347)
<b>Total Long-term Liabilities - At amortised cost using the effective interest rate method</b>	<b>114,194,733</b>	<b>94,754,432</b>

Refer below for maturity dates of long term liabilities:

The obligations under annuity loans are scheduled below:

	Minimum annuity payments
Amounts payable under annuity loans:	
Payable within one year	22,023,825
Payable within two to five years	83,157,476
Payable after five years	112,451,923
	217,633,224
<b>Less: Future finance obligations</b>	<b>(95,062,647)</b>
<b>Present value of annuity obligations</b>	<b>122,570,577</b>

**Development Bank Loans**

Various structured loans have been taken up with DBSA, with an original value totalling R79.5m. One of the DBSA loans has a repayment period of 10 years maturing on 30/06/2017 paid with equal instalments. All other loans are paid 6 monthly on a "Fixed capital plus interest" basis over a 20 year period each with a maturity date ranging from 31/12/2019 - 31/12/2029 respectively. Interest rates applicable on all loans vary from 9% to 12%.

**First National Bank**

A loan amounting to R3,400,000 has been taken up from First National Bank in the previous financial year. This loan will be paid 6 monthly on a "fixed capital plus interest" basis over a five year period with maturity date of 30/06/2015. Interest rate applicable to this loan amounts to 10.56%

**Standard Bank**

A loan amounting to R 16 580 000 has been taken up from Standard bank in the previous financial year and a new loan amounting to R30 000 000 in the current year. These loans will be paid 6 monthly on a "fixed capital plus interest" basis over a 10 year period with maturity date of 30/06/2021 and 30/06/22 respectively. Interest rates applicable to this loan amounts to 11.26% and 10.71% respectively

A Fixed Deposit of R 4275037, (2011: R3 971 733) has been ring-fenced for the purposes of repaying Long-term Liabilities as set out in Notes

The fair value of Long- Term Liabilities was determined after considering the standard terms and conditions of agreements entered into between the municipality and the relevant financing institutions.

The obligations under finance leases are scheduled below:

Amounts payable under finance leases:

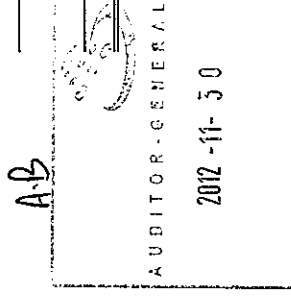
Payable within one year  
Payable within two to five years  
Payable after five years

	Minimum lease payments
	934,579
	197,254
	-
	1,131,833
	2,111,231
	(179,024)
	1,932,207

**Less: Future finance obligations**

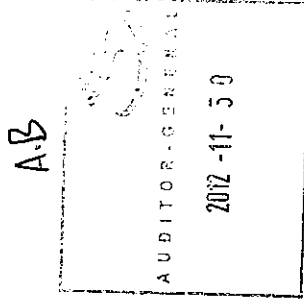
**Present value of lease obligations**

Leases are secured by property, plant and equipment - Note 13



**BITOU MUNICIPALITY**  
**NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

The municipality has entered into a lease agreement with Rentworks Africa Pty (LTD) whereby it leases Telecommunication and Smarttrouters from them. The rental period is between 30 and 33 months, starting 1 July 2010. Rental instalments is payable quarterly, amounting to R 271,603.68, excluding VAT per quarter. No escalation is applicable.



**BITOU MUNICIPALITY**  
**NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

4

**EMPLOYEE BENEFITS**

Post Retirement Benefits - Refer to Note 4.1  
 Long Service Awards - Refer to Note 4.2  
**Total Non-current Employee Benefit Liabilities**

	2012 R	2011 R
	54,906,743	37,524,321
	2,634,329	3,143,301
	<u>57,541,072</u>	<u>40,667,622</u>

**Post Retirement Benefits**

Balance 1 July  
 Contribution for the year  
 Expenditure for the year  
 Actuarial Loss  
**Total post retirement benefits 30 June**  
**Less:** Transfer of Current Portion - Note 7  
**Balance 30 June**

	2012 R	2011 R
	38,273,502	28,482,012
	6,113,020	4,828,423
	(677,107)	(579,048)
	12,044,120	5,542,118
	<u>55,753,535</u>	<u>38,273,505</u>
	(846,792)	(749,184)
	<u>54,906,743</u>	<u>37,524,321</u>

**Long Service Awards**

Balance 1 July  
 Contribution for the year  
 Expenditure for the year  
 Actuarial Gain  
**Total long service 30 June**  
**Less:** Transfer of Current Portion - Note 7  
**Balance 30 June**

	3,374,648	2,570,523
	629,939	572,215
	(170,020)	(193,684)
	(848,156)	425,604
	<u>2,986,411</u>	<u>3,374,648</u>
	(352,082)	(231,347)
	<u>2,634,329</u>	<u>3,143,301</u>

**TOTAL NON-CURRENT EMPLOYEE BENEFITS**

Balance 1 July  
 Contribution for the year  
 Expenditure for the year  
 Actuarial Loss  
**Total employee benefits 30 June**  
**Less:** Transfer of Current Portion - Note 7  
**Balance 30 June**

	41,648,150	31,052,536
	6,742,959	5,400,638
	(847,127)	(772,742)
	11,195,964	5,967,722
	<u>58,739,946</u>	<u>41,648,154</u>
	(1,198,874)	(980,531)
	<u>57,541,072</u>	<u>40,667,623</u>

4

**EMPLOYEE BENEFITS (CONTINUE)**

4.1

**Post Retirement Benefits**

The Post Retirement Benefit Plan is a defined benefit plan, of which the members are made up as follows:

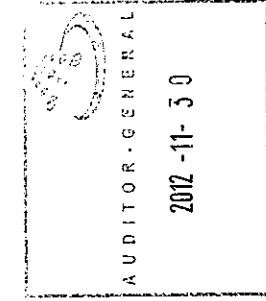
In-service (employee) members  
 Continuation members (e.g. Retirees, widows, orphans)  
**Total Members**

	360	376
	33	30
	<u>393</u>	<u>406</u>

The liability in respect of past service has been estimated to be as follows:

In-service members  
 Continuation members  
**Total Liability-unfunded**  
 The liability in respect of periods commencing prior to the comparative year has been estimated as follows:

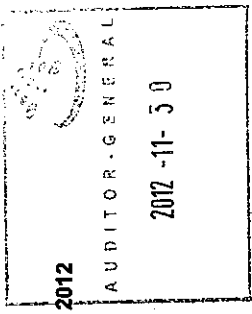
	43,084,238	28,578,326
	12,669,297	9,696,176
	<u>55,753,535</u>	<u>38,273,502</u>



	2,010	2,009	2008
		R	R
		-	-
		-	-
		-	-
		<u>28,482,014</u>	<u>-</u>

# BITOU MUNICIPALITY

## NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012



The municipality makes monthly contributions for health care arrangements to the following medical aid schemes:

Bonitas;  
LA Health  
Samwumedi; and  
Keyhealth.

Key actuarial assumptions used:

### I) Rate of Interest

Discount rate  
Health Care Cost Inflation Rate  
Net Effective Discount Rate

2012 %	2011 %
-----------	-----------

8.23%	8.79%
7.03%	7.36%
1.13%	1.34%

### II) Mortality rates

The PA 90 ultimate table, rated down by 1 year of age was used by the actuaries for post-retirement.  
The SA 85-90 table was used by the actuaries for current employees

### III) Normal retirement age

It has been assumed that in-service members will retire at an average age of 59, which then implicitly allows for expected rates of early and ill-health retirement.

2012 R	2011 R
-----------	-----------

The amounts recognised in the Statement of Financial Position are as follows:

Present value of fund obligations	55,753,535	38,273,502
<b>Net liability-unfunded</b>	<b>55,753,535</b>	<b>38,273,502</b>

### Reconciliation of present value of fund obligation:

Present value of fund obligation at the beginning of the year

Total expenses

Current service cost  
Interest Cost  
Benefits Paid

Actuarial losses

Present value of fund obligation at the end of the year

Less: Transfer of Current Portion - Note 7

Balance 30 June

38,273,502	28,482,014
5,435,913	4,249,370
2,780,882	2,231,944
3,332,138	2,596,474
(677,107)	(579,048)
12,044,120	5,542,118
55,753,535	38,273,502
(846,792)	(749,184)
<b>54,906,743</b>	<b>37,524,318</b>

### Sensitivity Analysis on the Accrued Liability in (R millions)

Assumption	In-service members liability (Rm)	Continuation members liability (Rm)	Total liability (Rm)	% change
Central Assumptions	43.084	12.669	55.754	

The effect of movements in the assumptions are as follows:

Assumption	Change
Health care inflation	1%
Health care inflation	-1%
Post-retirement mortality	-1 year
Average retirement age	-1 year
Withdrawal Rate	-50%

Total liability (Rm)	% change
66,786	20%
47,032	-16%
57,528	3%
58,985	6%
60,690	9%

2012	2011
------	------

## 4.2 Long Service Bonuses

The Long Service Bonus plans are defined benefit plans.

As at year end, the following number of employees were eligible for Long Service Bonuses.

383	387
-----	-----

**BITOU MUNICIPALITY**  
**NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

		2012	2011
		%	%
Key actuarial assumptions used:			
I) Rate of Interest			
Discount rate		6.56%	7.81%
General Salary Inflation (long-term)		5.97%	6.27%
Net Effective Discount Rate applied to salary-related Long Service Bonuses		0.56%	1.45%
		2012	2011
		R	R
The amounts recognised in the Statement of Financial Position are as follows:			
Present value of fund obligations		2,986,411	3,374,648
Net liability-unfunded		2,986,411	3,374,648

The liability in respect of periods commencing prior to the comparative year has been estimated as follows:

	2010	2009	2008
	R	R	R
<b>Total Liability-unfunded</b>	<b>2,570,523</b>	<b>2,432,297</b>	<b>3,012,888</b>

**Reconciliation of present value of fund obligation:**

Present value of fund obligation at the beginning of the year	3,374,648	2,570,523
Total expenses	459,919	378,521
Current service cost	375,164	346,890
Interest Cost	254,775	225,325
Benefits Paid	(170,020)	(193,694)
Actuarial losses	(848,156)	425,604
Present value of fund obligation at the end of the year	2,986,411	3,374,648
<b>Less: Transfer of Current Portion - Note 7</b>	<b>(352,082)</b>	<b>(231,347)</b>
<b>Balance 30 June</b>	<b>2,634,329</b>	<b>3,143,301</b>

**Sensitivity Analysis on the Unfunded Accrued Liability (in R Millions)**

Assumption	Change	Liability (R)	% change
Central assumptions		2,986	
General salary inflation	1%	3,191	7%
General salary inflation	-1%	2,802	-6%
Average retirement age	-2yrs	2,578	-14%
Average retirement age	2yrs	3,447	15%
Withdrawal rates	-50%	3,702	24%

**4.3**

**Retirement funds**

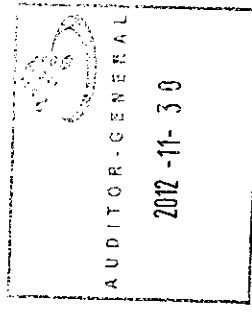
The Municipality requested detailed employee and pensioner information as well as information on the Municipality's share of the Pension and Retirement Funds' assets from the fund administrator. The fund administrator confirmed that assets of the Pension and Retirement Funds are not split per participating employer. Therefore, the Municipality is unable to determine the value of the plan assets as defined in GRAP. As part of the Municipality's process to value the defined benefit liabilities, the Municipality requested pensioner data from the fund administrator. The fund administrator claim that the pensioner data to be confidential and were not willing to share the information with the Municipality. Without detailed pensioner data the Municipality was unable to calculate a reliable estimate of the accrued liability in respect of pensioners who qualify for a defined benefit pension. Therefore, although both the Cape Joint Pension Fund and Cape Joint Retirement Fund are defined as defined benefit plans, it will be accounted for as defined contribution plans.

**CAPE JOINT PENSION FUND**

The contribution rate payable is 9% by members and 18% by Council. The last actuarial valuation performed for the year ended 30 June 2011 revealed that the fund has a funding level of 98.1% (30 June 2010 - 100%). Although the funds actuarial valuation has decreased, it is still within the Registrar's acceptable range, provided that the previous statutory valuation reflected at least a 100% funding level.

Contributions paid recognised in the Statement of Financial Performance

471,936	442,950
---------	---------



A.B



BITOU MUNICIPALITY  
NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

CAPE RETIREMENT FUND

The contribution rate payable is 9% by members and 18% by Council. The last actuarial valuation performed for the year ended 30 June 2010 revealed that the fund is in a sound financial position with a funding level of 100.3% (30 June 2009 - 103.3%).

Contributions paid recognised in the Statement of Financial Performance

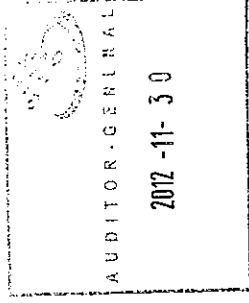
7,540,539      7,583,812

DEFINED CONTRIBUTION FUNDS

Council contribute to the Municipal Council Pension Fund which is a defined contribution fund. The retirement benefit fund is subject to the Pension Fund Act, 1956, with pension being calculated on the pensionable remuneration paid. Current contributions by Council are charged against expenditure on the basis of current service costs.

Contributions paid recognised in the Statement of Financial Performance

108,890      205,512



A-B

**BITOU MUNICIPALITY**  
**NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

5

**NON-CURRENT PROVISIONS**

Provision for Rehabilitation of Landfill-sites  
Provision for Cleaning of Alien Vegetation  
**Total Non-current Provisions**

	2012 R	2011 R
	6,743,750	6,274,010
	<u>1,138,952</u>	<u>1,072,577</u>
	<b><u>7,882,702</u></b>	<b><u>7,346,587</u></b>

**Landfill Sites**

Balance 1 July  
Contribution for the year  
Expenditure for the year

**Total provision 30 June**

**Less:** Transfer of Current Portion to Current Provisions - Note 8

**Balance 30 June**

	2012 R	2011 R
	6,274,010	5,929,120
	469,740	355,133
		(10,243)
	<b><u>6,743,750</u></b>	<b><u>6,274,010</u></b>
	<b><u>-</u></b>	<b><u>-</u></b>
	<b><u>6,743,750</u></b>	<b><u>6,274,010</u></b>

The municipality has an obligation to rehabilitate landfill sites at the end of the expected useful life of the asset. Total cost and estimated date of decommission of the sites are as follows:

	2014 R
Estimated decommission date	
Cost of rehabilitation	<b>7,262,950</b>

**Clearing of Alien Vegetation**

Balance 1 July  
Contribution for the year  
Expenditure for the year  
**Total provision 30 June**

	1,072,577	841,279
	79,475	619,058
	<u>(13,100)</u>	<u>(387,760)</u>
	<b><u>1,138,952</u></b>	<b><u>1,072,577</u></b>

6

**CONSUMER DEPOSITS**

Electricity and Water

**Total Consumer Deposits**

	4,476,945	4,281,691
	<b><u>4,476,945</u></b>	<b><u>4,281,691</u></b>

**Guarantees held in lieu of Electricity and Water Deposits**

Consumer deposits are paid by consumers on application for new water and electricity connections. The deposits are repaid when the water and electricity connections are terminated. In cases where consumers default on their accounts, Council utilizes the deposit as payment for the outstanding account.

No interest is paid on consumer deposits held.

Management of the municipality is of the opinion that the carrying value of Consumer Deposits approximate their fair values.

The fair value of Consumer Deposits was determined after considering the standard terms and conditions of agreements entered into between the municipality and its consumers.

7

**CURRENT EMPLOYEE BENEFITS**

Current Portion of Post Retirement Benefits - Note 4  
Current Portion of Long-Service Provisions - Note 4

Staff Leave

Bonuses

Pension fund shortages

TASK Evaluation

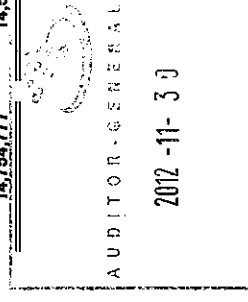
Performance Bonuses

**Total Current Employee Benefits**

	846,792	749,184
	352,082	231,347
	6,946,641	6,680,017
	1,975,176	1,956,777
	1,808,485	1,602,977
	938,392	1,683,603
	<u>1,887,210</u>	<u>1,612,904</u>
	<b><u>14,754,777</u></b>	<b><u>14,516,810</u></b>

The movement in current employee benefits are reconciled as follows:

**Staff Leave**



A-B

**BITOU MUNICIPALITY**  
**NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

Balance at beginning of year	6,680,017	5,299,775
Contribution to current portion	1,892,435	1,954,924
Expenditure incurred	(1,625,811)	(574,682)
Balance at end of year	<b>6,946,641</b>	<b>6,680,017</b>

Staff leave accrued to employees according to collective agreement. Provision is made for the full cost of accrued leave at reporting date. This provision will be realised as employees take leave. There is no possibility of reimbursement.

**Bonuses**

Balance at beginning of year	1,956,777	1,771,910
Contribution to current portion	3,615,004	3,454,885
Expenditure incurred	(3,596,605)	(3,269,818)
Balance at end of year	<b>1,975,176</b>	<b>1,956,777</b>

Bonuses are being paid to all municipal staff, excluding section 57 Managers. The balance at year end represent to portion of the bonus that have already vested for the current salary cycle. There is no possibility of reimbursement.

**Pension fund shortages**

Balance at beginning of year	1,602,977	1,322,230
Contribution to current portion	205,508	280,747
Balance at end of year	<b>1,808,485</b>	<b>1,602,977</b>

The municipality received notice from the Cape Joint Pension Fund regarding a shortfall in the annual earnings of the fund. The actual investment return that was reported amounted to -0.94%. The provision amounts to the amount that the Fund requested the municipality to pay. Interest on the outstanding portion was added since February 2010.

**TASK Evaluation**

Balance at beginning of year	1,683,603	938,805
Contribution to current portion	-	744,798
Expenditure incurred	(745,211)	-
Balance at end of year	<b>938,392</b>	<b>1,683,603</b>

**Performance Bonuses**

Balance at beginning of year	1,612,904	1,329,431
Contribution to current portion	274,306	1,655,545
Expenditure incurred	-	(1,372,072)
Balance at end of year	<b>1,887,210</b>	<b>1,612,904</b>

Performance bonuses are being paid to Municipal Manager, Directors and Employees on Fixed Term Contracts after an evaluation of performance by the council. There is no possibility of reimbursement.

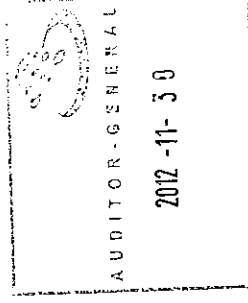
**PROVISIONS**

Current Portion of Rehabilitation of Landfill-site -Note 4	-	-
Legal cost	850,000	-

**Total Provisions**

	<b>850,000</b>	<b>-</b>
--	----------------	----------

This provision is for legal cost of a court judgement in the matter WG Brummer N.O and Others/ LL Mvimbi and Others of which the judgement was against the municipality. The cost is under taxation and will be payable during the 2012-2013 financial year



AB

**BITOU MUNICIPALITY**  
**NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

9

**PAYABLES FROM EXCHANGE TRANSACTIONS**

	2012 R	2011 R
Trade Payables	13,107,390	46,499,503
Pre-paid electricity	41,713	63,725
Other Creditors	2,574,466	1,297,715
Payments received in advance	4,958,951	4,878,552
Deposit Minnaar Land	-	5,019,402
Retentions	251,805	1,193,255
<b>Total Trade Payables</b>	<b>20,934,324</b>	<b>58,952,152</b>

Payables are being recognised net of any discounts.

The average credit period on purchases is 30 days from the receipt of the invoice (as determined by the MFMA). No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with. The municipality has financial risk policies in place to ensure that all payables are paid within the credit with. Other creditors mainly comprise deposits received towards services to be rendered to the municipality and unallocated banking deposits made on the municipality's banking accounts. No interest is raised and the credits held by the municipality are refunded once the services have been rendered or applied to the service account once the origin of the credit has been established.

Management of the municipality is of the opinion that the carrying value of Creditors approximate their fair values.

The fair value of Creditors were determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties.

All payables are unsecured.

10

**UNSPENT CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS**

<b>Unspent Grants</b>	40,914,812	33,980,814
National Government Grants	5,422,560	7,774,446
Provincial Government Grants	35,492,253	26,206,368
<b>Less: Unpaid Grants</b>	280,000	-
National Government Grants	280,000	-
<b>Total Conditional Grants and Receipts</b>	<b>40,634,812</b>	<b>33,980,814</b>

See appendix "D" for reconciliation of grants from other spheres of government. The municipality complied with the conditions attached to all grants received to the extent of revenue recognised. No grants were withheld.

11

**UNSPENT PUBLIC CONTRIBUTIONS**

Social responsibility	245,673	136,295
LED Strategy	205,996	400,000
Upgrade Kwano Sportfield	3,000,000	1,000,000
Allen Vegetation (standard Bank)	194,881	1,446,335
<b>Total Unspent Public Contributions</b>	<b>3,646,550</b>	<b>2,982,630</b>

**Reconciliation of public contributions**

**Social Responsibility**

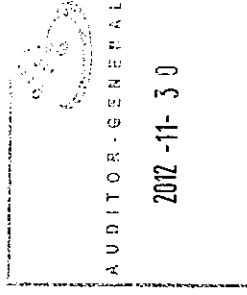
Opening balance	136,295	136,295
Contributions received	109,378	-
Closing balance	<b>245,673</b>	<b>136,295</b>

**LED Strategy (IDC)**

Opening balance	400,000	400,000
Conditions met - Transferred to revenue	(194,004)	-
Closing balance	<b>205,996</b>	<b>400,000</b>

**Upgrade Kwano Sportfield**

Opening balance	1,000,000	1,000,000
Contributions received	2,000,000	-



A.B

**BITOU MUNICIPALITY**  
**NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

Closing balance	3,000,000	1,000,000
-----------------	-----------	-----------

**Allen Vegetation (Std Bank)**

Opening balance	1,446,335	1,446,335
Conditions met - Transferred to revenue	(1,251,454)	
Closing balance	194,881	1,446,335

Donation towards the erection of a gravestone at the Sulkerbult graveyard

**Lipton**

Opening balance	-	-
Contributions received	20,000	
Conditions met - Transferred to revenue	(20,000)	
Closing balance	-	-

Donation towards buying sea rescue equipment

**12**

**TAXES**

**12.1 VAT PAYABLE**

VAT Payable	(2,345,377)	-
Total Vat payable	(2,345,377)	-

**12.2 VAT RECEIVABLE**

VAT input in suspense	-	10,438,207
Total VAT receivable	-	10,438,207

**12.3 NET VAT RECEIVABLE/(PAYABLE)**

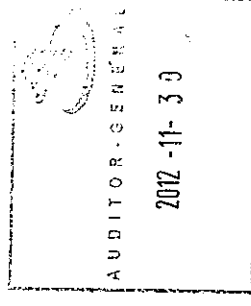
NET VAT RECEIVABLE/(PAYABLE)	(2,345,377)	10,438,207
------------------------------	-------------	------------

VAT is receivable/payable on the cash basis.

**13**

**PROPERTY, PLANT AND EQUIPMENT**

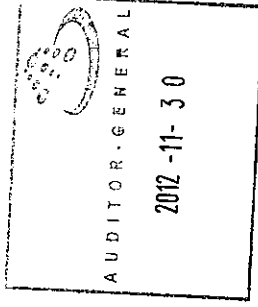
See attached sheet



A.B.

AUDITOR'S  
2012-11-

A.B



A.B

**BITOU MUNICIPALITY**  
**NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

13

**Assets pledged as security:**

All the assets which are obtained by financial leases are pledged as security.

2012                      2011

**Impairment of property, plant and equipment for the year**

Impairment charges on Property, Plant and Equipment recognised in statement of performance

5,229,810                      176,992

**Effect of change in accounting estimates**

**Change in estimates in terms of GRAP 3**

The useful life of the landfill site rehabilitation was adjusted for a further period until closure by June 2013.

The effect of the adjustment is as follows:

Depreciation after adjustments

25,999                      154,246

Depreciation before adjustments

51,999                      215,904

The useful lives of other assets were adjusted for further periods

The effect of the adjustment is as follows:

Depreciation after adjustments

7,948

Depreciation before adjustments

8,611

The useful lives of leased assets were adjusted for further periods

Depreciation after adjustments

2,110

Depreciation before adjustments

3,516

**Decrease in costs due to adjustment**

Depreciation after adjustments

-

Depreciation before adjustments

-

**Impairment of property plant and equipment for the year**

Impairment charges on Property, plant and equipment recognised in statement of financial performance

Infrastructure

718,754

Other

29,758

748,512

-

14

**INVESTMENT PROPERTY**

**Net Carrying amount at 1 July**

97,422,384                      97,590,490

Cost

98,787,966

Accumulated Depreciation

(1,365,582)

Depreciation for the year

(168,107)

**Net Carrying amount at 30 June**

97,254,277                      97,422,384

Cost

98,787,966

Accumulated Depreciation

(1,365,582)

There are no restrictions on the realisability of Investment Property or the remittance of revenue and proceeds of disposal.

There are no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

Revenue derived from the rental of investment property

763,295                      900,588

15

**INTANGIBLE ASSETS**

**Computer Software**

**Net Carrying amount at 1 July**

8,378,707

Cost

9,938,275

Accumulated Amortisation

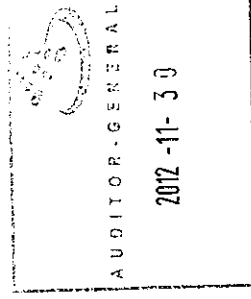
(650,815)

Written-off

(4,419,590)

Additions

1,471,904





**BITOU MUNICIPALITY**  
**NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

Amortisation	(565,006)	(563,150)
<b>Net Carrying amount at 30 June</b>	<b>4,765,648</b>	<b>9,287,460</b>
Cost	5,981,469	9,938,275
Accumulated Amortisation	(1,215,821)	(650,815)

The following material intangible assets are included in the carrying value above

<u>Description</u>	<u>Remaining Amortisation</u>	<u>Carrying Value</u>	
	<u>Period</u>	2012	2011
		R	R
Microsoft Office and Windows software	5	691,456	228,680
Cipal Themis Software and applications	10	5,290,013	9,709,595

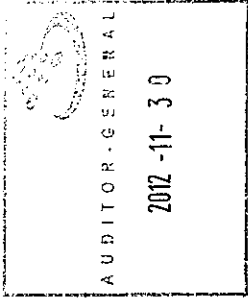
No intangible asset has an indefinite useful life.

There are no internally generated intangible assets at reporting date.

There are no intangible assets whose title is restricted.

There are no intangible assets pledged as security for liabilities

There are no contractual commitments for the acquisition of intangible assets.



A.B

**BITOU MUNICIPALITY**  
**NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**2012**                      **2011**

**16**                      **NON-CURRENT ASSETS HELD FOR SALE**

None current assets held for sale at beginning of the year-at book value	37,500	-
Additions for the year	-	37,500
Sold during the year	<u>(37,500)</u>	-
Non current assets held for sale at end of the year-at book value	-	<u><u>37,500</u></u>

**17**                      **NON - CURRENT INVESTMENTS**

Fixed Deposits	4,275,037	3,971,733
Total Non- Current Investments	<u><u>4,275,037</u></u>	<u><u>3,971,733</u></u>

Fixed Deposits are Investments with a maturity period of more than 12 months and earn interest at an average rate of 7.64 % per annum.

Fixed Deposits of R4275037, (2011: R3 971733) are ring-fenced for the purposes of repaying Long-term Liabilities as set out in Note 3

**18**                      **LONG-TERM RECEIVABLES**

Housing selling scheme loans	289,367	366,101
Less : Current portion transferred to current receivables	<u>(77,680)</u>	<u>(75,307)</u>
Total Long- Term Receivables	<u><u>211,686</u></u>	<u><u>290,794</u></u>

Prior to the coming into effect of the provisions of section 164(1)(c) of the MFMA (Act 56 of 2003) on 1 July 2004, loans were granted to qualifying senior staff members to enable them to acquire a house. The house should be occupied by the staff member and should be the primary home of the staff member. The repayment period of these loans and the applicable interest rate is a maximum of 20 years and eight percent per annum, respectively.

The carrying amount of these assets approximates their fair value.

The repayments applicable, are levied with the monthly consumer accounts, and outstanding amounts of the these accounts are reflected as part of the outstanding receivables from exchange transactions.

**19**                      **INVENTORY**

Consumables at store - At cost	1,791,081	2,068,055
Water – at cost	<u>117,282</u>	<u>111,991</u>
Total Inventory	<u><u>1,908,362</u></u>	<u><u>2,180,046</u></u>

Consumable stores materials written down due to losses as identified during the annual stores counts.

Consumable stores materials surplusses identified during the annual stores counts.

Inventory recognised as an expense during the year

	<u><u>146,177</u></u>	<u><u>56,117</u></u>
	<u><u>25,308</u></u>	<u><u>-</u></u>
	<u><u>2,658,028</u></u>	<u><u>3,111,813</u></u>

No inventory assets were pledged as security for liabilities.

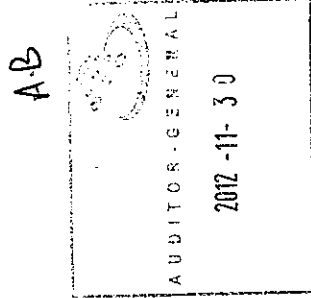
**20**                      **RECEIVABLES FROM EXCHANGE TRANSACTIONS**

**As at 30 June 2012**

Service Receivables	Gross Balances	Provision for Impairment	Nett Balances
Electricity	67,339,016	36,226,084	31,112,932
Water	14,317,719	3,785,920	10,531,799
Sewerage	16,273,265	9,930,990	6,342,275
Sundries	18,923,141	11,679,237	7,243,904
Refuse Removal	6,514,522	2,447,010	4,067,512
Housing Rentals	11,310,369	8,382,927	2,927,442
Total	439,679	261,752	177,927
	<u><u>67,778,694</u></u>	<u><u>36,487,836</u></u>	<u><u>31,290,858</u></u>

**As at 30 June 2011**

Service Receivables	51,062,287	26,044,901	25,017,386
Electricity	10,651,007	3,126,229	7,524,778
Water	<u><u>12,318,137</u></u>	<u><u>6,945,195</u></u>	<u><u>5,372,942</u></u>



**BITOU MUNICIPALITY**  
**NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

Sewerage	14,792,316	8,272,227	6,520,089
Sundries	4,794,474	1,990,652	2,803,822
Refuse Removal	8,506,353	5,710,598	2,795,755
Housing Rentals	310,387	173,308	137,080
<b>Total</b>	<b>51,372,675</b>	<b>26,218,209</b>	<b>25,154,456</b>

**Ageing of Receivables from Exchange Transactions:**

**(Electricity): Ageing**

Current (0 - 30 days)	9,521,592	7,178,870
31 - 60 Days	1,249,946	967,247
61 - 90 Days	636,837	461,315
+ 90 Days	2,909,344	2,043,577
<b>Total</b>	<b>14,317,719</b>	<b>10,651,009</b>

**(Water): Ageing**

Current (0 - 30 days)	3,059,987	3,562,481
31 - 60 Days	881,414	644,674
61 - 90 Days	636,822	702,595
+ 90 Days	11,695,042	7,388,387
<b>Total</b>	<b>16,273,265</b>	<b>12,318,137</b>

**(Sewerage): Ageing**

Current (0 - 30 days)	2,528,487	4,066,753
31 - 60 Days	1,142,808	558,494
61 - 90 Days	1,323,650	502,252
+ 90 Days	13,928,196	9,664,818
<b>Total</b>	<b>18,923,141</b>	<b>14,792,316</b>

**(Sundries): Ageing**

Current (0 - 30 days)	131,091	385,251
31 - 60 Days	148,435	30,010
61 - 90 Days	48,512	1,481,304
+ 90 Days	6,186,483	2,897,909
<b>Total</b>	<b>6,514,522</b>	<b>4,794,474</b>

**(Refuse): Ageing**

Current (0 - 30 days)	1,371,087	1,979,258
31 - 60 Days	556,067	340,888
61 - 90 Days	430,681	285,193
+ 90 Days	8,952,534	5,901,014
<b>Total</b>	<b>11,310,369</b>	<b>8,505,353</b>

**(Housing): Ageing**

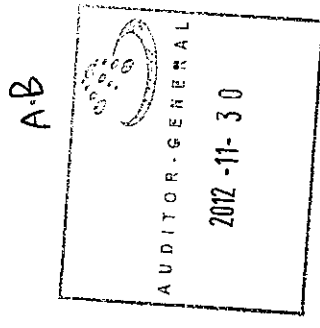
Current (0 - 30 days)	48,776	84,404
31 - 60 Days	19,917	26,623
61 - 90 Days	14,118	26,447
+ 90 Days	356,868	172,913
<b>Total</b>	<b>439,679</b>	<b>310,387</b>

AB

AUDITOR - GENERAL  
2012 -11- 30

**(Total): Ageing**

Current (0 - 30 days)	16,661,021	17,277,016
31 - 60 Days	3,998,586	2,567,936
61 - 90 Days	3,090,620	3,459,106
+ 90 Days	44,028,468	28,068,618
<b>Total</b>	<b>67,778,694</b>	<b>51,372,675</b>



**BITOU MUNICIPALITY**  
**NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

21

**RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS**

	2012 R	2011 R
Rates		
Other Receivables	17,211,318	16,009,984
Insurance claims	787,985	341,430
Sundry Debtors	787,985	341,430
<b>Total Receivables from Non-Exchange Transactions</b>	<b>17,999,303</b>	<b>16,351,414</b>
Less: Allowance for Doubtful Debts	(5,026,577)	(4,775,365)
<b>Total Net Receivables from Non-Exchange Transactions</b>	<b>12,972,726</b>	<b>11,576,049</b>

Ageing of Receivables from Non-Exchange Transactions:

(Rates): Ageing

Current (0 - 30 days)	5,833,665	4,146,335
31 - 60 Days	852,191	827,932
61 - 90 Days	513,542	660,474
+ 90 Days	10,011,921	10,375,242
<b>Total</b>	<b>17,211,318</b>	<b>16,009,984</b>

Receivables Impaired

	Exchange Transactions R's	Non-Exchange Transactions R's	Total R's
<b>2012</b>			
<b>Total</b>	<b>36,487,836</b>	<b>5,026,577</b>	<b>41,514,413</b>
<b>2011</b>			
<b>Total</b>	<b>26,218,209</b>	<b>4,775,365</b>	<b>30,993,574</b>

**Reconciliation of Provision for Bad Debts**

Balance at beginning of year	30,993,574	24,232,719
Contribution to provision	11,725,900	12,124,452
Bad Debts Written Off	(1,205,061)	(5,363,597)
<b>Balance at end of year</b>	<b>41,514,413</b>	<b>30,993,574</b>

In determining the recoverability of a trade receivable, the Municipality considers any change in the credit quality of the trade receivable from the date the credit was initially granted, up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, management believes no further credit provisions are required in excess of the present allowance for doubtful

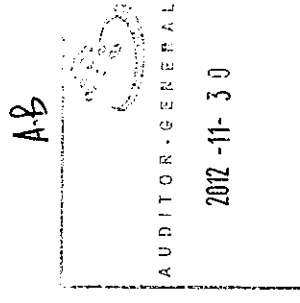
22

**OPERATING LEASE ARRANGEMENTS**

22.1

**The Municipality as Lessee (Liability)**

<b>Balance on 1 July</b>	<b>552,476</b>	<b>565,623</b>
<b>Movement during the year</b>	<b>(30,553)</b>	<b>(13,147)</b>
<b>Balance on 30 June</b>	<b>521,923</b>	<b>552,476</b>



**BITOU MUNICIPALITY**  
**NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

	R	R
At the Statement of Financial Position date, where the municipality acts as a lessee under operating leases, it will pay operating lease expenditure as follows:		
Up to 1 Year	1,134,830	2,509,176.00
1 to 5 Years	1,263,461	2,205,877
More than 5 Years	587,896	780,310
<b>Total Operating Lease Arrangements</b>	<b>2,986,187</b>	<b>5,495,363</b>

Operating leases consist out of agreements for buildings ,vehicles and other equipment

The municipality does not engage in any sub-lease arrangements.

The municipality did not pay any contingent rent during the year

**22.2 The Municipality as Lessor (Asset)**

<b>Balance on 1 July</b>	4,117	5,083
<b>Movement during the year</b>	<b>(1,230)</b>	<b>(966)</b>
<b>Balance on 30 June</b>	<b>2,887</b>	<b>4,117</b>

At the Statement of Financial Position date, where the municipality acts as a lessor under operating leases, it will receive operating lease income as follows:

Up to 1 Year	15,300	18,262
1 to 5 Years	11,393	26,612
More than 5 Years	-	81
<b>Total Operating Lease Arrangements</b>	<b>26,693</b>	<b>44,955</b>

This lease income was determined from contracts that have a specific conditional income and does not include lease income which has a undetermined conditional income.

No restrictions have been imposed on the Municipality in terms of the operating lease agreements.

The leases are in respect of land and buildings being leased out for several purposes.

The municipality does not engage in any sub-lease arrangements.

The municipality did not receive any contingent rent during the year

**CASH AND CASH EQUIVALENTS**

**Assets**

Call Investments Deposits	27,044,104	10,191,098
Bank Accounts	1,564,610	6,481,294
Cash Floats	11,220	11,220
<b>Total Cash and Cash Equivalents - Assets</b>	<b>28,619,934</b>	<b>16,683,612</b>

Cash and cash equivalents comprises of cash held and short term deposits. The carrying amount of these assets approximates their fair value.

Bank overdraft facility of R0 , (2011) R 5,000,000 exists at Standard Bank.

Security amounting to R 200,000 are held at Absa Bank for E- Fuel.

The municipality has the following bank accounts:

**Current Accounts-Cash book balances**

Standard Bank George-Account Number 082599343 (Primary Bank Account)	7,150,361	4,912,590
Standard Bank George-Account Number 282032371 (Direct Deposits)	1,326,668	1,211,342
Standard Bank George-Account Number 082608288 (ACB)	113,605	42,047
Standard Bank George-Account Number 082592535 (Traffic Account)	410,604	370,199
FNB - AccountNumber 62060979964	6,735	-
	<b>9,007,973</b>	<b>6,536,178</b>

Cash book balance at beginning of year

Cash book balance at end of year

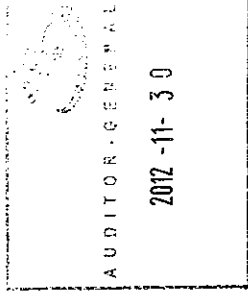
**Standard Bank George-Account Number 082599343 (Primary Bank Account)**

Bank statement balance at beginning of year

Bank statement balance at end of year

**Standard Bank George-Account Number 282032371 (Direct Deposits)**

	6,481,294	11,484,922
	1,564,610	6,481,294
	4,912,590	17,465,800
	7,150,361	4,912,590



**BITOU MUNICIPALITY**  
**NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

Bank statement balance at beginning of year	1,211,342	929,054
Bank statement balance at end of year	<u>1,326,666</u>	<u>1,211,342</u>
<b>Standard Bank George-Account Number 082592535 (Traffic Account)</b>		
Bank statement balance at beginning of year	370,199	453,867
Bank statement balance at end of year	<u>410,604</u>	<u>370,199</u>
<b>Standard Bank George-Account Number 082608288 (ACB)</b>		
Bank statement balance at beginning of year	42,047	430
Bank statement balance at end of year	<u>113,605</u>	<u>42,047</u>
<b>FNB- Account Number 6206097964</b>		
Bank statement balance at beginning of year	-	-
Bank statement balance at end of year	<u>6,735</u>	<u>-</u>

**Call Investment Deposits**

Call investment deposits consist out of the following accounts:

Abesa Account nr 20-4897-5233	38,303	36,243
Abesa Account nr 20-5009-0176	21,865	20,689
Standard Account nr 488-860-7000-013	6,097	5,886
Standard Account nr 488-860-7000-015	5,078,228	10,128,281
Standard Account nr 488-607-7000-015	149,009	-
Investec Account nr 1100443838450	10,281,310	-
Nedbank Account nr 03-7881052406-000039-000039	6,287,237	-
Nedbank Account nr 03-7881052406-000039-000038	5,182,055	-
	<u>27,044,104</u>	<u>10,191,059</u>

For the purposes of the Cash Flow Statement, Bank, Cash and Cash Equivalents include Cash-on-Hand, Cash in Banks and Investments in Money Market Instruments, net of outstanding Bank Overdrafts.

Call investment deposits are investments with a maturity period of less than 3 months and earn interest rates varying from 5 % to 6 % per annum.

ABSA investment account number 2048975233 has been ceded as collateral for bond number 8043787245 to the amount of R 24 000.

ABSA investment account number 2050090176 has been ceded as collateral for bond number 8044250229 to the amount of R13 700.

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**PROPERTY RATES**

**Actual**

**Rateable Land and Buildings**

Residential, Industrial, Rural and Other  
Commercial  
State

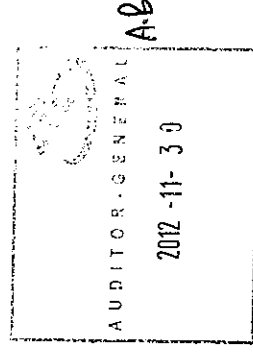
70,817,786	66,796,239
64,041,686	59,062,849
6,142,045	7,039,605
634,055	693,785

Less: Rebates

(1,005,697)	(1,381,402)
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**Total Assessment Rates**

<u>69,812,089</u>	<u>65,414,837</u>
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**BITOU MUNICIPALITY**  
**NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

	2012 R	2011 R
<b>Valuations - 1 JULY 2011</b>		
<b>Rateable Land and Buildings</b>		
Residential, Industrial/Rural and Other	19,261,950,771	18,946,107,897
Commercial	978,821,050	1,212,732,150
State	137,522,550	122,576,322
<b>Total Assessment Rates</b>	<b>20,378,294,371</b>	<b>20,281,416,369</b>

Assessment Rates are levied on the value of land and improvements, which valuation must be performed every 5 years. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations, consolidations and subdivisions.

The tariff for residential properties are used as the basis for the calculation of property rates for all other categories. a Business will pay 67% more than a household and farms or rural properties will pay 75% less than residential households.

Rates are levied annually on property and are payable by 30 September. Owners are allowed to pay the annual assessment in 12 monthly instalments. Monthly rates are payable by the 15th of the following month. Interest is levied at the prime rate plus 1% on outstanding rates amounts.

Rebates can be defined as any income that the Municipality is entitled by law to levy, but which has subsequently been forgone by way of rebate or remission.

25

**GOVERNMENT GRANTS AND SUBSIDIES**

<b>Unconditional Grants</b>	<b>18,978,000</b>	<b>17,536,395</b>
Equitable Share	18,978,000	17,536,395
<b>Conditional Grants</b>	<b>39,832,137</b>	<b>90,070,426</b>
Grants and donations	39,832,137	90,070,426
<b>Total Government Grants and Subsidies</b>	<b>58,810,137</b>	<b>107,606,821</b>
<b>Government Grants and Subsidies - Capital</b>	<b>26,696,693</b>	<b>61,215,142</b>
Government Grants and Subsidies - Operating	32,113,444	46,391,679
<b>Revenue recognised per vote as required by Section 123 (c) of the MFMA</b>	<b>58,810,137</b>	<b>107,606,821</b>
Community & Social Services	2,454,549	350,000
Electricity	561,798	11,193,967
Executive & Council	19,807,106	16,361,395
Budget & Treasury	1,250,000	2,750,000
Housing	8,293,945	33,987,853
Planning & Development	14,060,088	10,869,454
Road Transport	301,651	-
Water	12,081,000	30,094,153
	<b>58,810,137</b>	<b>107,606,821</b>

The municipality does not expect any significant changes to the level of grants.

<b>25.1</b>	<b>Equitable share</b>	
	Grants received	18,978,000
	Conditions met - Operating	(18,978,000)
	Conditions still to be met	-

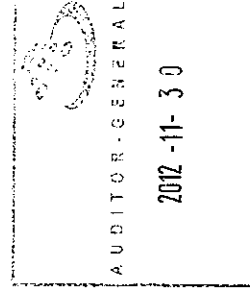
The Equitable Share is the unconditional share of the revenue raised nationally and is being allocated in terms of Section 214 of the Constitution (Act 108 of 1996) to the municipality by the National Treasury.

<b>25.2</b>	<b>Extended Public Works Program</b>	
	Opening balance	-
	Grants received	502,000
	Conditions still to be met	602,000

Job creation projects in previous disadvantage areas

**25.3** **Local Government Financial Management Grant (FMG)**

Opening balance	-
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**BITOU MUNICIPALITY**  
**NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

Grants received	1,250,000	2,750,000
Conditions met - Operating	(1,250,000)	(2,750,000)
Conditions still to be met	-	-

The Financial Management Grant is paid by National Treasury to medium capacity municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management interns).

**25.4 Municipal Systems Improvement Grant**

Opening balance	-	-
Grants received	790,000	750,000
Conditions met - Operating	(790,000)	(750,000)
Conditions still to be met	-	-

The MSG was used for building in-house capacity to perform municipal functions and stabilise institutional and governance systems, paid by National Treasury.

**25.5 Municipal Infrastructure Grant (MIG)**

Opening balance	-	9,094,153
Grants received	12,081,000	-
Conditions met - Operating	(6,193)	(53,824)
Conditions met - Capital	(12,074,807)	(9,040,329)
Conditions still to be met	-	-

The grant was used to upgrade infrastructure in previously disadvantaged areas, paid by National Treasury.

**25.6 Housing Grants**

Opening balance	25,840,364	7,423,123
Grants received	16,327,134	52,405,094
Conditions met - Operating	(8,293,945)	(24,716,065)
Conditions met - Capital	-	(9,271,788)
Conditions still to be met	<b>33,873,553</b>	<b>25,840,364</b>

Housing grants was utilised for the development of erven and the erection of top structures, paid by the

**25.7 National Electrification Programme**

Opening balance	242,549	1,436,516
Grants received	2,000,000	10,000,000
Conditions met - Capital	(281,798)	(11,193,967)
Conditions still to be met	<b>1,960,751</b>	<b>242,549</b>

The National Electrification Grant was used for electrical connections in previously disadvantaged areas.

**25.8 Drought Relief Grant**

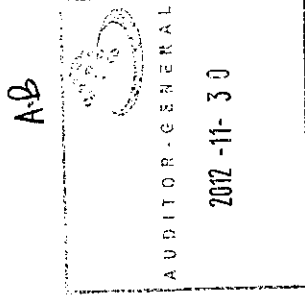
Opening balance	-	-
Grants received	-	20,000,000
Conditions met - Capital	-	(20,000,000)
Conditions still to be met	-	-

The grant was received from the National Treasury for the construction of a Desalination Plant to assist us in drought situations.

**25.9 Neighbourhood Development Grant (NDPG)**

Opening balance	7,531,896	3,531,807
Grants received	9,990,000	14,709,148
Conditions met - Capital	(14,060,088)	(10,709,059)
Conditions still to be met	<b>3,461,808</b>	<b>7,531,896</b>

Job creation in the previous disadvantage areas



**BITOU MUNICIPALITY**  
**NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**25.10 Provincial Management Support Grant**

Opening balance	164,205	324,800
Grants received	200,000	-
Conditions met - Operating	-	(160,395)
Conditions still to be met	<u>364,205</u>	<u>164,205</u>

The Grant was received from Provincial Government to assist with the implementation of Performance Management in the Municipality.

**25.11 Community Development Workers**

Opening balance	-	-
Grants received	52,000	75,000
Conditions met - Operating	(39,106)	(75,000)
Conditions still to be met	<u>12,894</u>	<u>-</u>

The grant was received from the Provincial Department of Local Government and Housing to assist with the operating cost of the CDW program.

**25.12 Library Grant**

Opening balance	-	-
Grants received	425,000	350,000
Conditions met - Operating	(385,549)	(350,000)
Conditions still to be met	<u>39,451</u>	<u>-</u>

The grant was received from the Provincial Department of Local Government to assist with the operating cost of libraries. The funds should be used to assist with the appointment of temporary staff and literacy projects. No funds were withheld.

**25.13 Spatial Planning**

Opening balance	84,200	84,200
Conditions still to be met	<u>84,200</u>	<u>84,200</u>

The grant was received from the Provincial Department of Environmental Affairs and Planning for the review of the spatial development framework. No funds were withheld. Projects that relates to Spatial Planning are

**25.14 Revitalise urban areas**

Opening balance	50,000	50,000
Conditions still to be met	<u>50,000</u>	<u>50,000</u>

The grant was received from the Provincial Department of Environmental Affairs and Planning for a study in respect of the revitalisation of urban areas. No funds were withheld. Projects that relate to the above are still

**25.15 Socio Economic upgrading of informal settlements**

Opening balance	50,000	50,000
Conditions still to be met	<u>50,000</u>	<u>50,000</u>

The grant was received from the Provincial Department of Environmental Affairs and Planning for a study in respect of the socio-economic upgrading of informal settlements. No funds were withheld. Projects that relates to socio economic upgrade of informal settlements are still incomplete.

**25.16 Traffic Disaster**

Opening balance	782	782
Conditions still to be met	<u>782</u>	<u>782</u>

The grant was received from Provincial Department to assist with Traffic Disasters

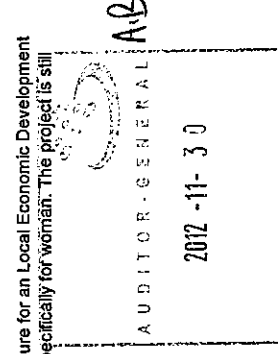
**25.17 MPC Kurland**

Opening balance	16,818	16,818
Conditions still to be met	<u>16,818</u>	<u>16,818</u>

The grant was received from the National Department of Agriculture for an Local Economic Development project. The monies were to be used for a job creation project specifically for woman. The project is still

**25.18 Eden District Municipality Water Grant**

Opening balance



**BITOU MUNICIPALITY**  
**NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

Grants received	-	1,000,000
Conditions met - Capital	-	(1,000,000)
Conditions still to be met	-	-

The grant was received from the Eden District Municipality for water infrastructure. No funds were withheld.

**25.19 Municipal Replacement Grant**

Opening balance	-	-
Grants received	2,069,000	-
Conditions met - Operating	(2,069,000)	-
Conditions met - Capital	-	-
Conditions still to be met	-	-

This grant was received as a contribution for the operational cost of the libraries

**25.20 Proclaimed Roads Maintenance**

Opening balance	-	-
Grants received	800,000	-
Conditions met - Operating	(301,651)	-
Conditions still to be met	<u>498,349</u>	-

This subsidy was for maintenance on main roads, belonging to the Western Cape Government

**25.21 Escom Demand Side Management (EDSM)**

Opening balance	-	-
Conditions met - Capital	(280,000)	-
Conditions met- Grant to recover	<u>(280,000)</u>	-

**25.22 Total Grants**

Opening balance	33,980,814	22,011,999
Grants received	65,484,134	119,575,637
Conditions met - Operating	(32,113,444)	(46,391,679)
Conditions met - Capital	(26,696,693)	(61,215,143)
Conditions still to be met/(Grant expenditure to be recovered)	<u>40,634,812</u>	<u>33,980,814</u>

Disclosed as follows:

Unspent Conditional Government Grants and Receipts  
 Unpaid Conditional Government Grants and Receipts

40,914,812	33,980,814
(280,000)	-
<u>40,634,812</u>	<u>33,980,814</u>

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**PUBLIC CONTRIBUTIONS AND DONATIONS**

Augmentation Fees: Electricity	1,376	802,666
Augmentation Fees: Water	1,163,716	1,452,031
Augmentation Fees:Sewerage	385,122	1,381,661
LED Strategy	194,000	-
Allien Vegetation Eredication	1,251,457	-
Linton	20,000	-
	<u>3,015,671</u>	<u>3,636,357</u>

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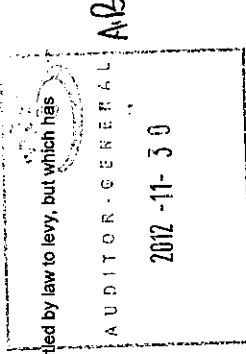
**SERVICE CHARGES**

Electricity charges	89,623,375	75,116,003
Water charges	29,994,272	28,362,299
Refuse removal charges	16,183,810	13,741,796
Sewerage and Sanitation Charges	28,084,782	25,258,528
	<u>163,886,239</u>	<u>142,478,626</u>
Less: Rebates	(3,744,602)	(2,998,602)
<b>Total Service Charges</b>	<u>160,141,637</u>	<u>139,480,025</u>

Rebates can be defined as any income that the Municipality is entitled by law to levy, but which has subsequently been forgone by way of rebate or remission.

**OTHER INCOME**

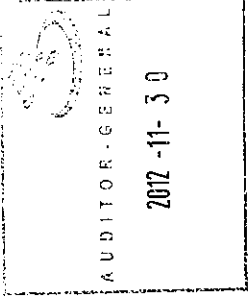
Fuel Sales	1,082	2,871
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**BITOU MUNICIPALITY**  
**NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

A-B



Landing Fees	26,141	31,442
Building Plan Fees	1,025,676	1,394,459
Boat Launching Fees	25,467	166,456
List of building plans	3,310	5,273
Sale of wheele bins	-	16,257
Fire fighting fees	90,508	90,350
Cemetery Fees	21,666	34,168
Conservancy Fees	839,991	774,503
Connection Fees	292,478	229,254
Services Connections	76,007	96,316
Reldisconnections	156,456	185,256
Sundries	1,072,165	2,014,225
<b>Total Other Income</b>	<b>3,630,946</b>	<b>5,040,830</b>

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**EMPLOYEE RELATED COSTS**

Salaries and Wages	58,362,161	59,312,075
Contributions to UIF and pensions	9,121,336	9,082,752
Bonuses	3,889,309	5,063,647
Overtime payments	3,241,689	4,030,644
Standby Allowance	842,055	843,673
Travelling Allowance and subsistence and other Allowances	6,173,864	6,557,867
Housing Benefits and Allowance	717,150	617,532
Medical Aid contributions	8,166,002	7,606,795
Contributions to Group Insurance	1,672,832	1,715,598
Contributions to Leave	1,892,435	1,954,924
Contribution to Post Employment Medical	6,113,020	4,249,370
Contribution to Long Service awards	629,939	376,521
Provision for TASK	-	744,798
<b>Total Employee Related Costs</b>	<b>100,821,794</b>	<b>102,158,196</b>

**KEY MANAGEMENT PERSONNEL**

Municipal Manager is appointed on a 5-year and all other Directors on a 5-year fixed contract. There are no post-employment or termination benefits payable to them at the end of the contract period.

**REMUNERATION OF KEY MANAGEMENT PERSONNEL**

**Remuneration of the Municipal Manager (Period July 2011-February 2012)**

Annual Remuneration	1,051,288	944,379
Performance Bonus	-	107,467
Travelling Allowance	141,760	144,000
Telephone allowance	-	18,000
Contributions to UIF, Medical, Pension Funds and Bargaining Council	37,589	31,422
<b>Total</b>	<b>1,230,618</b>	<b>1,245,268</b>

**Remuneration of the Director Infrastructure and Technical Services**

Annual Remuneration	744,772	513,600
Performance Bonus	-	91,347
Travelling Allowance	147,816	323,789
Telephone allowance	-	18,000
Contributions to UIF, Medical, Pension Funds and Bargaining Council	109,389	114,443
<b>Total</b>	<b>1,001,977</b>	<b>1,061,178</b>

**Remuneration of the Director Corporate Services**

Annual Remuneration	866,584	813,174
Performance Bonus	-	91,347
Travelling Allowance	100,000	100,000
Telephone allowance	-	18,000
Contributions to UIF, Medical, Pension Funds and Bargaining Council	47,153	38,657
<b>Total</b>	<b>1,013,737</b>	<b>1,061,178</b>

**Remuneration of the Director Community Services**

Annual Remuneration	782,958	776,405
Performance Bonus	-	91,347
Travelling Allowance	181,318	144,000
Telephone allowance	-	18,000
Contributions to UIF, Medical, Pension Funds and Bargaining Council	45,017	31,427
<b>Total</b>	<b>1,009,292</b>	<b>1,061,178</b>

**Remuneration of the Chief Financial Officer (July 2011-Febr 2012)**

Annual Remuneration	587,124	874,275
Performance Bonus	-	96,720
Travelling Allowance	96,301	132,000

**BITOU MUNICIPALITY**  
**NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

Telephone allowance  
Contributions to UIF, Medical, Pension Funds and Bargaining Council

1,750	18,000
8,936	1,547
694,111	1,122,542

**Remuneration of the Director : Strategic Services**

Annual Remuneration  
Performance Bonus  
Bonus  
Travelling Allowance  
Telephone allowance  
Contributions to UIF, Medical, Pension Funds and Bargaining Council

948,975	695,805
-	91,347
4,062	-
299,062	129,235
2,000	18,000
81,642	126,791
1,335,741	1,061,178

**30 REMUNERATION OF COUNCILLORS**

Executive Mayor  
Deputy Executive Mayor  
Speaker  
Mayoral Committee Members  
Councillors  
Councillors-other allowances

545,665	531,865
439,043	427,846
409,747	422,162
837,184	431,975
1,310,280	1,027,282
193,415	151,693
3,735,333	2,992,823

**In-kind Benefits**

The Councillors occupying the positions of Executive Mayor, Deputy Executive Mayor, Speaker and Executive Mayoral Committee Members of the Municipality serve in a full-time capacity. They are provided with office accommodation and secretarial support at the expense of the Municipality in order to enable them to perform their official duties. The Executive Mayor is also provided with official transport for public duties.

**31 DEBT IMPAIRMENT**  
Receivables from exchange transactions - Note 20  
Receivables from non-exchange transactions - Note 21  
**Total Contribution to Debt Impairment**  
Less: Portion Relating to VAT  
**Debt Impairment recognised in statement of financial performance**

10,827,858	10,920,985
898,042	1,203,467
11,725,900	12,124,452
(1,258,187)	-
10,467,713	12,124,452

**32 DEPRECIATION AND AMORTISATION**

Property Plant and Equipment  
Investment Property  
Intangible Assets

18,282,038	15,859,873
168,107	168,107
565,006	563,150
19,015,151	16,591,128

**33 IMPAIRMENTS**

Property Plant & Equipment  
Intangible Assets  
Inventory

748,512	176,992
4,419,590	-
61,708	89,072
5,229,810	266,064

**34 FINANCE CHARGES**

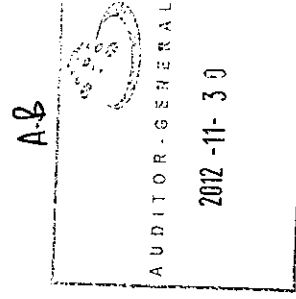
Long-term Liabilities  
Finance leases  
Hire Purchase  
Tip site restoration contribution  
Pension Fund  
**Total finance charges**

12,109,589	9,869,930
163,151	263,064
-	7,744
313,700	355,133
205,507	-
12,791,947	10,495,871

**35 BULK PURCHASES**

Electricity bulk  
**Total Bulk Purchases**

56,600,095	50,581,992
56,600,095	50,581,992



BITOU MUNICIPALITY  
NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

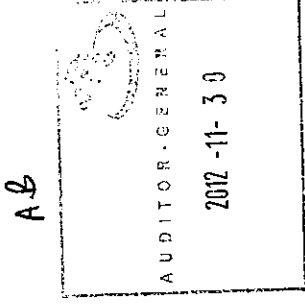
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GENERAL EXPENSES

Advertising  
Hire & Maintenance  
Hire of Vehicles  
Local Economic Development  
IT Support  
Insurance  
Materials and Stores  
Printing and Stationary  
Audit Fees  
Rent: Other  
Events & Festivals  
Disaster Relief  
Congresses and Seminars  
Third Party Payments  
Security  
Emergency VIP Protection  
Telecommunication  
Training  
Legal Expenses  
Electricity Supply  
General Cleanup  
Vehicle Operating Cost  
Chemicals  
Other

Total General Expenses

2012	2011
R	R
531,032	541,205
928,024	1,488,623
2,002,155	2,304,641
-	3,688
-	3,136,130
1,111,680	718,747
857,849	816,425
699,114	650,502
1,221,790	2,221,915
1,283,823	952,389
206,146	1,139,690
382,873	1,831,759
932,648	960,430
-	22,749
-	2,713,978
-	695
1,604,057	1,512,678
133,021	621,139
4,719,278	4,182,518
2,036,153	1,856,307
1,485,334	1,293,438
3,541,714	3,488,808
1,263,385	1,125,944
20,175,399	15,786,632
<b>45,115,476</b>	<b>49,371,031</b>



37

CORRECTION OF ERRORS IN TERMS OF GRAP 3

Prior year adjustments due to non-compliance with Accounting policy and errors

- 37.1 (a) Incorrect allocations in terms of payments for interest and redemption on annuity loans payable to Standard Bank were made in previous years originating in 2008. Standard Bank has amended their annuity tables, and this is now retrospective corrected with the following entries:  
(Dt) Accumulated Surplus - previous years - R94825.73 and (Ct) Long-term Liabilities - R94825.73
- (b) Salary payments and commissions on transfers for previous years have not been corrected during the previous financial year. It is now corrected retrospectively with the following entries : (Dt) Accumulated Surplus (2009) R242974.84 and (Ct) Receivables from non- exchange transactions R242974.84
- (c) As part of the revenue enhancement program, the following amounts were levied in the current year in respect of previous years errors in accounts: (2010/11) Refuse R512847.48, Sewerage R1062963.18, Water R723235.83, Electricity R191420.40, Rates R1048007.19 and Sanitation (R36226.56 (2009/10) Refuse R435914.19, Sewerage R115890.10, Water R652209.16, Electricity R130370.14, Rates R701853.56 and Sanitation (R50274.00) It is corrected retrospectively with the following entries: (Dt) Receivables from exchange transactions R4781349.92 (Dt) Receivables from non-exchar transactions R1749860.75, and (Ct) Accumulated Surplus R6531210.67
- (d) Assets to the value of R3068316.21 in respect of the 2010/11 year were incorrectly not capitalized, with the effect that assets and creditors were both understated in the 2010/11 year. This error is now rectified with the following entries: (Dt) Property , Plant and Equipment R3068316.21, and (Ct) Payables from exchange transactions R871203.14 Retention and R2197113.07 other creditors)  
(Ct) Accumulated Depreciation R1095.72 and (Dt) Accumulated Surplus - Depreciation 2010/11 R1095.72
- (e) Erf 2195 was previously not capitalized as an asset. This error is now corrected with the following entries:(Dt) Property, Plant and Equipment- Land and Buildings R892092 (Ct) Acc Surplus - prior years R892092, (Dt) Acc Surplus- prior years R33514 (Ct) Acc Depreciation Land and Buildings R33514, (Dt) Acc Surplus -current year (depreciation) R11171.33, (Ct) Acc Depreciation Land and Buildings R11171.33.
- (f) The useful lives of assets were incorrectly determined with the initial capitalization of it with the result that the accumulated depreciation were incorrectly calculated and consequently understated on assets nr's 2819, 11249 and 11258 respectively. This is now corrected with the following entries: (Dt) Acc Surplus - prior years R112324.4 and (Ct) Acc Depreciation - Other Assets R112324.40, (Dt) Acc Surplus-Current year (depreciation R37441.46 (Ct) Acc Depreciation - Other Assets, R37441.46
- (g) All the land was not accounted in the calculation of the provision for alien vegetation. The provision was understated for previous years with R511832.09. This is now rectified retrospectively with the following entries: (Dt) Acc Surplus and (Ct) Provision for Clearing Alien Vegetation

The above representing the narratives of the following Corrections of Errors  
as set out from notes 37.2 to 37.8

37.2

Accumulated Surplus

2011	2010
R	R

**BITOU MUNICIPALITY**  
**NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

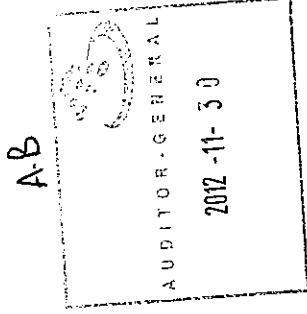
	<b>Balance previously reported</b>	<b>431,473,143</b>	<b>406,037,365</b>
	Correction of Long-term liabilities-see note 37.1 (a)	(94,826)	(94,826)
	Correction of Receivables from non- exchange transactions-see note 37.1(b)	(242,975)	(242,975)
	Correction of Receivables from exchange transactions-see note 37.1(c)	4,781,350	2,327,110
	Correction of Receivables from non- exchange transactions-see note 37.1(c)	1,749,861	701,854
	Correction of Property, Plant and Equipment-see note 37.1(d)	(1,096)	-
	Corrections of Land and Buildings -see note 37.1(e)	847,407	858,578
	Correction of Other Assets- see note 37.1.(f)	(149,766)	(112,324)
	Correction of Non-Current Provisions-see note 37.1.(g)	(511,832)	(511,832)
	<b>Restated balance</b>	<b>437,861,266</b>	<b>409,962,949</b>
<b>37.3</b>	<b>Receivables from non exchange transactions</b>		
	<b>Balance previously reported</b>	<b>10,069,163</b>	<b>9,439,452</b>
	Correction of error -see note 37.1(b)	(242,975)	(242,975)
	Correction of error -see note 37.1(c)	1,749,861	701,854
	<b>Restated balance</b>	<b>11,576,049</b>	<b>9,898,331</b>
<b>37.4</b>	<b>Long-term Liabilities</b>		
	<b>Balance previously reported</b>	<b>82,141,180</b>	<b>45,227,154</b>
	Correction of error -see note 37.1(a)	94,826	94,826
	<b>Restated balance</b>	<b>82,236,007</b>	<b>45,321,980</b>
<b>37.5</b>	<b>Receivables from Exchange transactions</b>		
	<b>Balance previously reported</b>	<b>20,373,116</b>	<b>17,391,437</b>
	Correction of error -see note 37.1(c)	4,781,350	2,327,110
	<b>Restated balance</b>	<b>25,154,466</b>	<b>19,718,547</b>
<b>37.6</b>	<b>Payables from exchange transactions</b>		
	<b>Balance previously reported</b>	<b>55,883,836</b>	<b>-</b>
	Correction of error -see note 37.1(d)	3,068,316	-
	<b>Restated balance</b>	<b>58,952,152</b>	<b>-</b>
<b>37.7</b>	<b>Property, Plant and Equipment</b>		
	<b>Balance previously reported</b>	<b>524,192,857</b>	<b>441,016,977</b>
	Correction of error -see note 37.1(d)	3,068,316	-
	Correction of error -see note 37.1(d)	(1,096)	-
	Correction of error -see note 37.1(e)	847,407	858,578
	Correction of error-see note 37.1(f)	(149,765)	(112,324)
	<b>Restated balance</b>	<b>527,957,719</b>	<b>441,763,231</b>
<b>37.8</b>	<b>Non-Current Provisions</b>		
	<b>Balance previously reported</b>	<b>6,834,765</b>	<b>6,288,568</b>
	Correction of error-see note 37.1.(g)	511,832	511,832
	<b>Restated balance</b>	<b>7,346,587</b>	<b>6,770,400</b>

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**RECONCILIATION BETWEEN NET DEFICIT FOR THE YEAR AND CASH GENERATED/(ABSORBED) BY OPERATIONS**

Surplus for the year	
<b>Adjustments for:</b>	
Depreciation	
Amortisation of Intangible Assets	
Asset Impairment	
Loss on disposal of property, plant and equipment	
Debt Impairment	
Debt Impairment-written off	
Contribution to non current liability	
Contribution to employee benefits-current	
Contribution from/to employee benefits-non current	

2012	2011
R	R
9,107,622	28,128,100
18,450,145	16,027,978
565,006	563,150
5,168,102	176,992
-	734,365
11,725,900	12,124,452
(1,205,061)	(5,363,598)
536,115	576,187
237,967	2,874,129
16,873,449	10,595,618



**BITOU MUNICIPALITY**  
**NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

Provisions	850,000		966
Operating lease income accrued	1,230		(13,147)
Operating lease expenses accrued	(30,553)		
Operating Surplus before changes in working capital	62,279,922	66,425,192	
Changes in working capital	(35,661,050)	22,439,874	
(Decrease)/Increase in Payables from Exchange Transactions	(38,017,828)	18,069,291	
Increase in Unspent Conditional Government Grants and Receipts	6,933,998	11,968,815	
Increase in Unspent Conditional Public Grants and Reserves	663,920	2,982,630	
Increase in Taxes	12,783,584	2,680,789	
Decrease in Inventory	271,684	612,852	
Decrease in Non Current Assets Held For Sale	37,500		
(Increase) in Trade and other receivables	(18,053,908)	(12,102,837)	
Increase in Unpaid Conditional Government Grants and Receipts	(280,000)	(1,771,666)	
<b>Cash generated by operations</b>	<b>26,618,872</b>	<b>88,865,067</b>	

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**CASH AND CASH EQUIVALENTS**

Cash and cash equivalents included in the cash flow statement comprise the following:

Call Investments Deposits - Note 23	27,044,104	10,191,098
Cash Floats - Note 23	11,220	11,220
Bank - Note 23	1,564,610	6,481,294
<b>Total cash and cash equivalents</b>	<b>28,619,934</b>	<b>16,683,612</b>

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**RECONCILIATION OF AVAILABLE CASH AND INVESTMENT RESOURCES**

Cash and Cash Equivalents - Note 39

Less:	28,619,934	16,683,612
Unspent Committed Conditional Grants - Note 10	28,619,934	16,683,612
VAT - Note 12	46,906,739	26,525,237
Unspent Public Contributions	40,914,812	33,980,814
<b>Resources available for working capital requirements</b>	<b>2,345,377</b>	<b>(10,438,207)</b>
	<b>3,646,550</b>	<b>2,982,630</b>
	<b>(18,286,806)</b>	<b>(9,841,625)</b>

41

**UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION**

Long-term Liabilities - Note 3

Used to finance property, plant and equipment - at cost

123,638,729	102,605,722
(123,638,729)	(102,605,722)

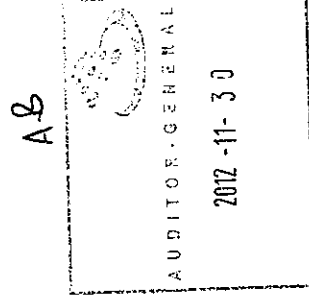
Cash set aside for the repayment of long-term liabilities

-	-
---	---

**Cash Invested for repayment of long-term liabilities**

-	-
---	---

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act.





**BITOU MUNICIPALITY**  
**NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

42

**BUDGET COMPARISONS**

**42.1**

**Operational**

**Revenue by source**

	2012 R (Actual)	2012 R (Budget)	2012 R (Variance)	2012 (%)
Property taxes	69,812,089	70,500,000	(687,911)	-1%
Government Grants and Subsidies-capital	26,696,893	31,845,446	(5,148,553)	-16%
Government Grants and Subsidies	32,113,444	42,763,357	(10,649,913)	-25%
Public Contributions and Donations	3,015,671	4,580,000	(1,564,329)	-34%
Fines	5,143,656	389,756	4,753,900	8%
Service Charges	160,141,637	155,673,054	4,468,583	3%
Rental of Facilities and Equipment	763,295	1,907,953	(1,144,658)	-60%
Interest Earned - external investments	1,613,757	482,000	1,131,757	235%
Interest Earned - outstanding debtors	3,161,664	3,090,000	71,664	2%
Agency Services	760,645	700,000	60,645	9%
Other Income	3,630,946	5,927,995	(2,297,049)	-39%
Licences and Permits	94,461	116,000	(21,539)	-19%
Gain on disposal of Property, Plant and Equipment	390,893	403,893	(13,000)	-3%
	<b>307,338,851</b>	<b>322,743,598</b>	<b>(15,404,747)</b>	<b>-5%</b>

**Expenditure by nature**

Employee Related Costs	100,821,794	96,037,743	(4,784,051)	5%
Remuneration of Councilors	3,735,333	3,724,708	(10,625)	0%
Debt Impairment	10,467,713	9,444,999	(1,022,714)	11%
Collection Cost	995,711	660,000	(335,711)	51%
Depreciation and Amortisation	19,015,151	18,238,116	(777,035)	4%
Impairments	5,229,810	-	(5,229,810)	-100%
Repairs and Maintenance	10,240,307	12,324,305	(2,083,998)	-17%
Actuarial losses	11,195,964	-	(11,195,964)	-100%
Finance Charges	12,791,947	11,966,718	(825,229)	7%
Bulk Purchases	56,600,095	65,000,000	(8,399,905)	-13%
Contracted services	10,998,681	11,755,964	(757,283)	-6%
Operating Grant Expenditure	10,998,745	20,146,134	(9,147,389)	-45%
General Expenses	45,115,476	53,951,366	(8,835,890)	-16%
Loss on Disposal of PPE	24,500	-	(24,500)	-100%
	<b>298,231,229</b>	<b>303,250,053</b>	<b>5,018,824</b>	<b>-2%</b>
<b>Net Surplus for the year</b>	<b>9,107,622</b>	<b>19,493,545</b>	<b>(10,385,923)</b>	<b>-53%</b>

**Reasons: Revenue by source**

Government Grants and Subsidies-capital - Unspent portion of capital grants received not recognised as income.  
Government Grants and Subsidies  
Public Contributions and Donations - Unspent portion of Lotto funding not recognised as income  
Rental of Facilities and Equipment - Reduction in rental of Look Out Beach Restaurant  
Interest Earned - external investments: Unspent portion of external loans invested, resulting in higher then anticipated interest received  
Other Income - Vat Recovery transferred

**Reasons: Expenditure by nature**

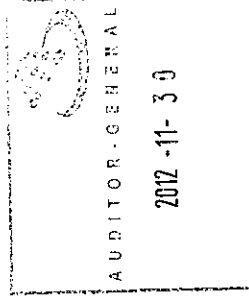
Debt Impairment - Under provision of debt impairment  
Impairments - Impairment of Infrastructure and Other Assets not provided for  
Repairs and Maintenance - Less then anticipated expenditure on various votes due to savings measures by Municipal Manager  
Bulk Purchases - Less then anticipated electricity purchases for winter period  
Operating Grant Expenditure - Capital portion of Housing grant portion not correctly allocated  
General Expenses - Savings on some votes including due to forced savings measurements instituted by the Municipal Manager.  
Loss on Disposal of PPE - Fire engine sold for less then its carrying value

**42.2**

**Expenditure by Vote**

	2012 R (Actual)	2012 R (Budget)	2012 R (Variance)	2012 (%)
Community & Social Services	7,884,308	8,887,235	(1,002,927)	-11%
Corporate Services	19,144,047	22,420,913	(3,276,866)	-15%
Electricity	70,245,960	81,842,904	(11,596,924)	-14%
Executive & Council	56,939,818	37,457,136	19,482,682	52%
Budget & Treasury	18,189,216	18,562,876	(373,660)	-2%
Housing	13,184,791	21,359,171	(8,174,380)	-38%
Health	17,515	-	17,515	100%
Other	3,797,781	5,707,229	(1,909,448)	-33%
Planning & Development	7,375,269	8,318,444	(943,175)	-11%
Public Safety	17,862,003	17,579,162	(282,841)	0%
Road Transport	18,345,368	17,231,925	1,113,443	6%
Sport & Recreation	14,276,951	15,379,028	(1,102,077)	-7%
Waste Management	13,533,551	14,836,419	(1,302,868)	-9%
Waste Water Management	17,778,670	15,090,995	2,687,675	18%

A-B



**BITOU MUNICIPALITY**  
**NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

Water	19,955,961 <b>296,231,229</b>	18,576,616 <b>303,250,053</b>	1,379,345 <b>(6,018,824)</b>	7% <b>-2%</b>
<b>42.3 Capital expenditure by vote</b>	<b>2012 R (Actual)</b>	<b>2012 R (Budget)</b>	<b>2012 R (Variance)</b>	<b>2012 (%)</b>
Community & Social Services	9,625,424	9,956,861	(331,437)	-3%
Corporate Services	1,951,706	3,180,000	(1,228,294)	-39%
Electricity	2,506,036	4,383,139	(1,877,103)	-43%
Executive & Council	52,859	60,000	(7,141)	-12%
Budget & Treasury	28,100	270,000	(241,900)	-90%
Housing	7,000,000	7,121,000	(121,000)	-2%
Planning & Development	38,133	90,000	(51,867)	-58%
Public Safety	759,072	815,145	(56,073)	-7%
Road Transport	7,727,484	11,235,734	(3,508,250)	-31%
Sport & Recreation	1,813	5,000,000	(4,998,187)	-100%
Waste Management	190,291	3,500,000	(3,309,709)	-95%
Waste Water Management	630,922	900,000	(269,078)	-30%
Water	7,039,324	7,168,500	(129,176)	-2%
	<b>37,551,165</b>	<b>53,680,379</b>	<b>(16,129,214)</b>	<b>-30%</b>

**Reasons for under spending**

Electricity - Housing Electrification project rolled-over and to be completed in 2012/2013 financial year  
Budget & Treasury - Delay with SCM processed for procurement of Metering System  
Planning & Development - Moratorium placed on capital expenditure

Sport & Recreation - Construction of Swimming pool did not realise. Loto funds provided for the upgrading of sports facilities to be rolled over to 2012/2013  
Waste Management- Construction of waste transfer station did not realise as anticipated.

Waste Water - Combination of savings on equipment procured and the moratorium placed on capital expenditure

**43**

**UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED**

**43.1 Unauthorised expenditure**

Reconciliation of unauthorised expenditure:

Opening balance	35,908,259	2012 R	2011 R
Unauthorised expenditure current year - capital	-	-	-
Unauthorised expenditure current year - operating	24,680,661	24,680,661	26,066,634
Written off by council	-	-	-
Unspent Grants not cash backed	18,286,805	18,286,805	9,841,625
Unauthorised expenditure awaiting authorisation	<b>78,875,725</b>	<b>78,875,725</b>	<b>35,908,259</b>

Unauthorised expenditure on operating votes is mainly due to provisional (book entries), amounts recognised in terms of GRAP implementation.

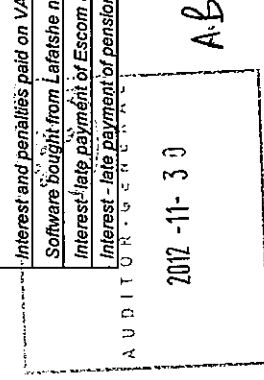
Incident	Disciplinary steps/criminal proceedings
Over expenditure on votes 2010/2011	None
Over expenditure on votes 2011/2012	None
The portion of unspent government grants which is not cash backed- (see also note 40)	None

**43.2 Fruitless and wasteful expenditure**

Reconciliation of fruitless and wasteful expenditure:

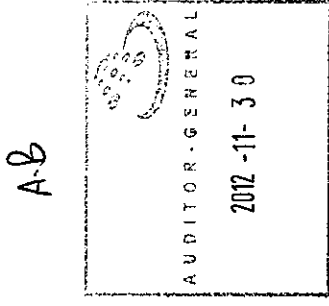
Opening balance	3,619,682	2012 R	2011 R
Fruitless and wasteful expenditure current year	4,480,425	4,480,425	3,619,682
Paid back/condoned	(3,619,682)	(3,619,682)	-
Fruitless and wasteful expenditure awaiting further action	<b>4,480,425</b>	<b>4,480,425</b>	<b>3,619,682</b>

Incident	Disciplinary steps/criminal proceedings
Interest and penalties paid on VAT	None
Software bought from Lafatshe not utilised	None
Interest-late payment of Eskom accounts	None
Interest - late payment of pensionsfund	None



BITOU MUNICIPALITY  
NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

4 480 425



**BITOU MUNICIPALITY**  
**NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

<b>43.3</b>	<b><u>Irregular expenditure</u></b>	<b>2012</b>	<b>2011</b>
		<b>R</b>	<b>R</b>
	Reconciliation of irregular expenditure:		
	Opening balance	4,626,366	-
	Irregular expenditure current year	536,713	4,626,366
	Irregular expenditure awaiting further action	<u>5,163,079</u>	<u>4,626,366</u>

<b>Incident</b>	<b>Disciplinary steps/criminal proceedings</b>
<i>Irregular expenditure of previous financial year not finalized</i>	<i>In process to investigate</i>
<i>Shortages in Motor registration Agency Fees-possible fraud</i>	<i>In process to investigate</i>
<i>Transactions with suppliers where their interest in the state were not disclosed and recorded</i>	<i>None</i>
<i>Deviations from the normal procurement processes not recorded</i>	<i>None</i>
<i>Transactions with suppliers who are related to members of the municipality but not disclosed and recorded</i>	<i>None</i>

<b>43.4</b>	<b><u>Material Losses</u></b>	<b>2012</b>	<b>2011</b>
	<b>Water distribution losses</b>		
	- Kilo litres disinfected/purified/purchased	2,836,779	2,573,438
	- Kilo litres lost during distribution	457,665	519,950
	- Percentage lost during distribution	16.13%	20.20%
	<b>Electricity distribution losses</b>		
	- Units purchased (Kwh)	101,905,034	103,307,029
	- Units lost during distribution (Kwh)	10,165,642	12,475,041
	- Percentage lost during distribution	9.98%	12.08%

44

**ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT**

**44.1** **Contributions to organised local government - [MFMA 125 (1)(b)] - SALGA CONTRIBUTIONS**

Council subscriptions	675,969	417,265
Amount paid - current year	(675,969)	(417,265)
<b>Balance unpaid (included in creditors)</b>	<u>-</u>	<u>-</u>

<b>2012</b>	<b>2011</b>
<b>R</b>	<b>R</b>

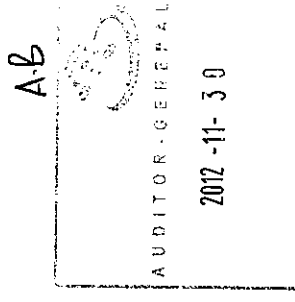
**44.2** **Audit fees - [MFMA 125 (1)(c)]**

Opening balance	-	-
Current year audit fee	1,221,790	2,221,915
External Audit - Auditor-General		
Amount paid - current year	<u>1,221,790</u>	<u>2,221,915</u>
<b>Balance unpaid (included in creditors)</b>	<u>(1,221,790)</u>	<u>(2,221,915)</u>
	<u>-</u>	<u>-</u>

<b>2012</b>	<b>2011</b>
<b>R</b>	<b>R</b>

**44.3** **VAT - [MFMA 125 (1)(b)]**

Vat in suspense	(2,345,377)	10,438,207
<b>Payable/ Receivable</b>	<u>(2,345,377)</u>	<u>10,438,207</u>



**BITOU MUNICIPALITY**  
**NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

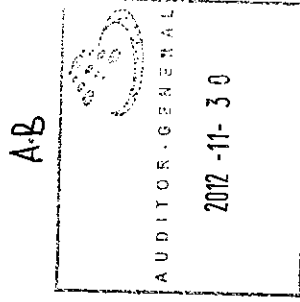
VAT is payable/receivable on the receipt basis. VAT is only paid over to SARS once cash is received from debtors and only claimed from SARS once payment is made to creditors.

<b>44.4</b>	<b><u>PAYE, SDL and UIF - [MFMA 125 (1)(c)]</u></b>	<b>2012</b>	<b>2011</b>
		<b>R</b>	<b>R</b>
	Current year payroll deductions and Council Contributions	12,672,103	12,372,055
	Amount paid - current year	(11,714,186)	(12,372,055)
	<b>Balance unpaid (included in creditors)</b>	<b>957,917</b>	<b>-</b>
<b>44.5</b>	<b><u>Pension and Medical Aid Deductions - [MFMA 125 (1)(c)]</u></b>		
	Opening balance	-	-
	Current year payroll deductions and Council Contributions	26,035,346	16,053,558
	Amount paid - current year	(25,064,921)	(16,053,558)
	<b>Balance unpaid (included in creditors)</b>	<b>970,425</b>	<b>-</b>
<b>44.6</b>	<b><u>Councillor's arrear consumer accounts - [MFMA 124 (1)(b)]</u></b>		
	Councillors with arrear accounts for more than 90 days as at 30 June 2012		
		<b>2012</b>	<b>2011</b>
		<b>R</b>	<b>R</b>
		Outstanding	Outstanding
		more than 90	more than 90
		days	days
	L.R. Jonas	4,044	-
	J.J.N. Stuurman	5,518	-
	S.E. Gcabayi	8,062	-
	<b>Total Councillor Arrear Consumer Accounts</b>	<b>17,624</b>	<b>-</b>

<b>44.7</b>	<b><u>Other non-compliance [MFMA 125(2)(e)]</u></b>	<b>Between</b>	<b>Between</b>	<b>More than</b>
		<b>R 30,001</b>	<b>R200001 and</b>	<b>R 2,000,000</b>
		<b>R 200,000</b>	<b>R 2,000,000</b>	
	Corporate Services	-	-	-
	Infrastructure	97,503	662,723	-
	Financial Services	319,605	943,732	-
	Community Services	125,443	-	-
	Municipal Manager	89,474	4,893,702	-
	Mayors Office	911,514	-	-
	Strategic Services	104,225	-	-
	Electric Services	1,359,681	-	-
		46,843	-	-
		1,180,178	-	-
		72,949	-	-
		546,321	-	-
		184,365	-	-
		<b>925,411</b>	<b>5,264,983</b>	<b>-</b>

**44.8** **Awards above R2000 to spouses, child, parent of a person in service of the state (Section 45 of the Supply Management Policy).**

Company	Name	Capacity	Relation	Accumulated Amount
E&P Enterprise	E. Marais	Secretary CFO	Father	R 31,341
Victory Ticket 887	T. Ngolo	Director Admin	Son	38,067
Pikas Tours	J. Pika	Sport Dev Officer	Brother	10,500
Phelo Construction	S. Lose	Exec Mayor's Off	Brother	25,152
Sizlala Construction	A. Gova	Mechanic	Brother	100,910



**BITOU MUNICIPALITY**  
**NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

45

**CAPITAL COMMITMENTS**

**Commitments in respect of capital expenditure:**

Approved and contracted for:

Total commitments consist out of the following:

New Horizon precincts-supply of cycle path  
Electrification of 330 informal houses

Tender MSID30/2011

Tender MSID32/2011

Tender MSID35/2011

Tender MSID37/2011

Tender MSID38/2011

Tender MSID45/2011

Tender MSID43/2011

Tender FIN01/2012

Tender MSID06/2012

Tender MSID11/2012

Tender MSID15/2012

This expenditure will be financed from:

Government Grants and Subsidies  
External Loans  
Own Funds

2012  
R

2011  
R

26,585,290

10,716,995

1,567,775

1,300,135

53,694

1,238,001

1,413,653

377,566

13,293,317

242,029

674,219

1,452,777

2,104,224

1,567,775

1,300,135

26,585,290

7,531,846

-

2,084,671

1,100,478

26,585,290

10,716,995

2012  
R

2011  
R

46

**FINANCIAL RISK MANAGEMENT**

The activities of the municipality expose it to a variety of financial risks, including market risk (comprising fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The municipality's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance.

**(a) Foreign Exchange Currency Risk**

The municipality does not engage in foreign currency transactions.

**(b) Price risk**

The municipality is not exposed to price risk.

**(c) Interest Rate Risk**

As the municipality has significant interest-bearing liabilities, the entity's income and operating cash flows are substantially dependent on changes in market interest rates.

The municipality analyses its potential exposure to interest rate changes on a continuous basis. Different scenarios are simulated which include refinancing, renewal of current positions, alternative financing and hedging. Based on these scenarios, the entity calculates the impact that a change in interest rates will have on the surplus/deficit for the year. These scenarios are only simulated for liabilities which constitute the majority of interest bearing liabilities.

The municipality did not hedge against any interest rate risks during the current year.

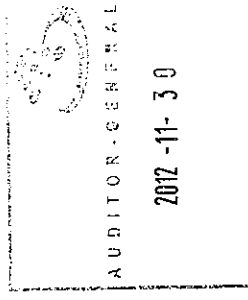
The potential impact on the entity's surplus/deficit for the year due to changes in interest rates were as follow:

0.5% Increase in interest rates  
0.5% Decrease in interest rates

(596,446)  
596,446

(740,580)  
740,580

A.B



**BITOU MUNICIPALITY**  
**NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**(d) Credit Risk**

Credit risk is the risk that a counter party to a financial or non-financial asset will fail to discharge an obligation and cause the municipality to incur a financial loss.

Credit risk consist mainly of cash deposits, cash equivalents, trade and other receivables and unpaid conditional grants and subsidies.

Receivables are disclosed net after provisions are made for impairment and bad debts. Trade debtors comprise of a large number of ratepayers, dispersed across different sectors and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Credit risk pertaining to trade and other debtors is considered to be moderate due the diversified nature of debtors and immaterial nature of individual balances. In the case of consumer debtors the municipality effectively has the right to terminate services to customers but in practice this is difficult to apply. In the case of debtors whose accounts become in arrears, Council endeavours to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

All rates and services are payable within 30 days from invoice date. Refer to note 20 and 21 for all balances outstanding longer than 30 days. These balances represent all debtors at year end which defaulted on their credit terms.

Balances past due not impaired:

<u>Non-Exchange Receivables</u>	2012 %	2012 R	2011 %	2011 R
<u>Rates</u>	100.00%	<u>7,139,061</u>	100.00%	<u>7,429,714</u>
<u>Exchange Receivables</u>				
Electricity	6.91%	1,010,207	4.39%	345,909
Water	22.44%	3,282,288	22.73%	1,790,461
Refuse	10.64%	1,556,355	10.36%	816,497
Sewerage	32.23%	4,715,416	31.14%	2,453,337
Other	26.91%	3,936,420	30.70%	2,418,571
Housing Rentals	0.88%	129,151	0.67%	52,876
	100.00%	<u>14,629,837</u>	100.00%	<u>7,877,451</u>

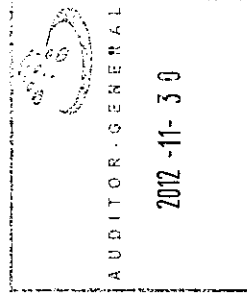
No receivables are pledged as security for financial liabilities.

Due to the short term nature of receivables the carrying value disclosed in note 20 and 21 of the financial statements is an approximation of its fair value. Interest on overdue balances are included at prime lending rate plus 1% where applicable.

The provision for bad debts could be allocated between the different classes of debtors as follows:

<u>Non-Exchange Receivables</u>	2012 %	2012 R	2011 %	2011 R
<u>Rates</u>	100.00%	<u>5,026,577</u>	100.00%	<u>4,775,365</u>
<u>Exchange Receivables</u>				
Electricity	10.38%	3,785,920	11.92%	3,126,229
Water	27.22%	9,930,990	26.49%	6,945,195
Refuse	22.97%	8,382,927	21.78%	5,710,598
Sewerage	32.01%	11,679,237	31.55%	8,272,227
Other	6.71%	2,447,010	7.58%	1,990,652
Housing Rentals	0.72%	261,752	0.66%	173,308
	100.00%	<u>36,487,836</u>	100%	<u>26,218,209</u>

A.B



**BITOU MUNICIPALITY**  
**NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

The entity only deposits cash with major banks with high quality credit standing. No cash and cash equivalents were pledged as security for financial liabilities and no restrictions were placed on the use of any cash and cash equivalents for the period under review. Although the credit risk pertaining to cash and cash equivalents are considered to be low, the maximum exposure are disclosed below.

The entity only enters into non-current investment transactions with major banks with high quality credit standing. An investment to the value of R 4275037 is held as security for a loan raised with ABSA. Although the credit risk pertaining to non-current investments are considered to be low, the maximum exposure are disclosed below.

The banks utilised by the municipality for current and non-current investments are all listed on the JSE. The credit quality of these institutions are evaluated based on their required SENS releases as well as other media reports. Based on all public communications, the financial sustainability is evaluated to be of high quality and the credit risk pertaining to these institutions are considered to be low.

The risk pertaining to unpaid conditional grants and subsidies are considered to be very low. Amounts are receivable from national and provincial government and there are no expectation of counter party default.

Long-term Receivables and Other Debtors are individually evaluated annually at Balance Sheet date for impairment.

Financial assets exposed to credit risk at year end are as follows:

	2012 R	2011 R
Receivables from exchange transactions	31,290,858	25,154,466
Receivables from non-exchange transactions	12,972,726	11,576,049
Cash and Cash Equivalents	28,619,934	16,683,612
Unpaid conditional grants and subsidies	280,000	-
Longterm Receivables	289,367	366,101
Non-Current Investments	4,275,037	3,971,733
	<u>77,727,922</u>	<u>57,751,961</u>

**(e) Liquidity Risk**

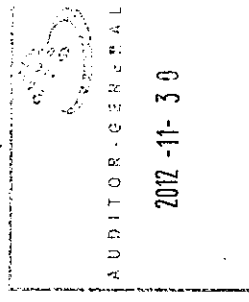
Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business, the treasury maintains flexibility in funding by maintaining availability under credit lines.

The entity's risk to liquidity is a result of the funds available to cover future commitments. The entity manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the entity's financial liabilities into relevant maturity groupings based on the remaining period at the financial year end to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	Over 10 Years
<b>2012</b>				
Long Term liabilities	22,958,404	83,354,729	78,993,463	33,458,461
Capital repayments	9,443,996	39,504,464	49,989,162	24,701,107
Interest	13,514,408	43,850,265	29,004,301	8,757,354
Non-Current Provision	7,882,702	-	-	-
Trade and Other Payables	15,933,661	-	-	-
Unspent conditional government grants and receipts	40,914,812	-	-	-
	<u>87,689,580</u>	<u>83,354,729</u>	<u>78,993,463</u>	<u>33,458,461</u>

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**BITOU MUNICIPALITY**  
**NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

	2011	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	Over 10 Years
Long Term liabilities		18,285,305	64,993,213	60,690,940	43,036,657
Capital repayments		7,443,040	29,492,607	35,360,891	30,214,358
Interest		10,842,265	35,500,606	25,330,049	12,822,299
Non Current Provision		7,346,587	-	-	-
Trade and Other Payables		54,009,875	-	-	-
Unspent conditional government grants and receipts		33,980,814	-	-	-
		<u>113,622,581</u>	<u>64,993,213</u>	<u>60,690,940</u>	<u>43,036,657</u>

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**FINANCIAL INSTRUMENTS**

In accordance with GRAP 104 the financial instruments of the municipality are classified as follows:

The fair value of financial instruments approximates the amortised costs as reflected below.

47.1	<u>Financial Assets</u>	<u>Classification</u>	2012 R	2011 R
	<b>Long-Term Receivables</b>			
	House Loans	Financial instruments at amortised cost	211,686	290,794
	<b>Receivables</b>			
	Receivables from exchange transactions	Financial instruments at amortised cost		
	Receivables from non- exchange transactions (excluding rates)	Financial instruments at amortised cost	31,290,858	25,154,466
	<b>Current Portion of Long-Term Receivables</b>			
	Housing Loans		77,680	75,307
	<b>Short-term Investment Deposits</b>			
	Call Deposits	Financial instruments at amortised cost	27,044,104	10,191,098
	<b>Bank Balances and Cash</b>			
	Bank Balances	Financial instruments at amortised cost	1,564,610	6,481,294
	Cash Floats and Advances	Financial instruments at amortised cost	11,220	11,220
	<b>Investments</b>	Financial instruments at amortised cost	4,275,037	3,971,733
			<u>65,263,181</u>	<u>46,517,342</u>

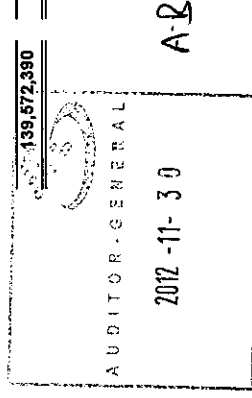
**SUMMARY OF FINANCIAL ASSETS**

Financial instruments at amortised cost	
<b>At amortised cost</b>	<u>65,263,181</u>

**FINANCIAL INSTRUMENTS (CONTINUE)**

47.2	<u>Financial Liability</u>	<u>Classification</u>	2012 R	2011 R
	<b>Long-term Liabilities</b>			
	Annuity Loans	Financial instruments at amortised cost	114,008,747	93,950,573
	Capitalised Lease Liability	Financial instruments at amortised cost	185,987	803,860
	<b>Payables from exchange transactions</b>			
	Trade creditors	Financial instruments at amortised cost	13,107,390	46,499,503
	Deposits	Financial instruments at amortised cost	-	5,019,402
	Other	Financial instruments at amortised cost	2,826,271	2,490,970
	<b>Current Portion of Long-term Liabilities</b>			
	Annuity Loans	Financial instruments at amortised cost	8,561,831	6,722,942
	Capitalised Lease Liability	Financial instruments at amortised cost	882,165	1,128,347
			<u>139,572,390</u>	<u>166,615,597</u>

**SUMMARY OF FINANCIAL LIABILITY**



**BITOU MUNICIPALITY**  
**NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

Financial instruments at amortised cost

139,672,390  
156,615,597

**48** **EVENTS AFTER THE REPORTING DATE**

A CFO was appointed in terms of section 56 of the MFMA, and will commence with duty as from 3 September 2012. Council is also in the process to appoint a Municipal Manager, and it is anticipated that the process will be finalised at the end of October 2012.

**49** **IN-KIND DONATIONS AND ASSISTANCE**

None

**50** **PRIVATE PUBLIC PARTNERSHIPS**

Council has not entered into any private public partnerships during the financial year.

**51** **CONTINGENT LIABILITY**

**51.1** **Litigation Labour Court/Kenny Leluma**

The respondent statement of defence in this matter was filed in which he claims certain payments due to him. A request for reconciliation in this matter was filed by the respondent in an attempt to settle this issue. The estimate financial exposure in this case, should it be successfully settled, amounted to R70000

**51.2** **Wavelengths**

The claim for R28 million for a land sale which was cancelled, and litigated by the respondent, was successfully opposed by council. Although the judgement of the High Court ruled in favour of council, the respondent filed an appeal. It seems very unlikely that the respondent will be successful with the appeal. However, apart from this case, council is still liable to repay the R28 million to the Western Cape Government on this amount is reflected as unspent government grants and subsidies in note 25.6

**51.3** **Vaughn Barry Arnold**

The plaintiff is arguing against council's refusal to approve a building plan and claims for a compensation agreement in the High Court. Should the plaintiff be successful, a potential cash outflow is possible of which the amount is not be determined at this stage

**51.4** **Mohaleng Media**

This company alleges that the municipality owed them money for producing a communication strategy. On the face of prima-facie evidence, the municipality will oppose the claim and consider arbitration on this matter. If the arbitration process proceeds, the estimated cost will be in the region of an amount between R20000 to R150000

**51.5** **DWine Inspiration Trading 469 (Pty) Ltd and SD Parts Centre CC trading as Torque (Western Cape High Court case nr 1738/2011)**

This revolves around the aspect of payment of legal cost. The municipalities legal counsel is of the opinion that the court should hold the respondent liable for payment of legal cost. The Taxing Master has indicated that this matter will be argued towards the end of 2012. As senior counsel is involved in this matter it could become an expensive affair, which expose the municipality of cost of approximately R100000

**51.6** **Plett Sea 2 CC and Other entities of Mike Scholtz or pertaining to Twin Rivers Development**

The municipality instructed its legal advisors to claim outstanding augmentation fees applicable on several phases of the development in the Twin River Development. The issues cannot be consolidated, thus separate summons will have to be issued in each matter. If the defendants not approaching the municipality to settle, and the matter go to trial, the worst case scenario, i.e. when all the matters go on trial without settlement, is that the total legal cost of approximately R350000 could possibly accrued.

**51.7** **B Claibsons CC / MEC Environmental Affairs and Development (Western Cape High Court; Case no. 26165/10)**

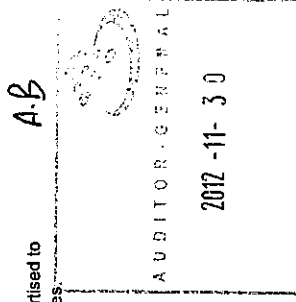
The municipality became involved as a 2nd respondent in this matter pursuant to a affidavit issued by a former Town Planner of the municipality. The applicant has filed a notice in terms whereof their bill of cost will be taxed on 7 November 2012. The 1st respondent will probably oppose the taxation and it might well expose the municipality as 2nd respondent to cost. It is estimated by the municipalities attorneys that the financial exposure can be approximately R15000

**52** **RELATED PARTIES**

Key Management and Councillors receive and pay for services on the same terms and conditions as other ratepayers / residents.

The rates, service charges and other charges are in accordance with approved tariffs that were advertised to the public. No bad debt expenses have been recognised in respect of amounts owed by related parties.

**52.1** **Related Party Loans**



**BITOU MUNICIPALITY**  
**NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

Since 1 July 2004 loans to councillors and senior management employees are not permitted.

**52.2 Compensation of key management personnel**

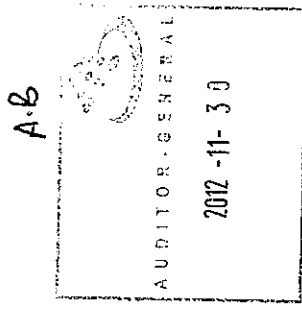
The compensation of key management personnel is set out in note 29 to the Annual Financial Statements.

**52.3 Related party transactions**


<b>Councillors</b>	<b>Rates and Services Levied 1 Jul 11 - 30 Jun 12</b>	<b>Outstanding Balances 30 June 2012</b>
<i>Councillor M Booysen</i>	2,171	626
<i>Councillor A. B. van Rhyner</i>	1,856	154
<i>Councillor C.L. Dreyer</i>	109,532	8,742
<i>Councillor A.R. Olivier</i>	2,580	212
<i>Councillor E.E. Paulse</i>	3,336	154
<i>Councillor N M De Waal</i>	2,110	154
<i>Councillor S E Gcabayi</i>	5,883	8,062
<i>Councillor L Jonas</i>		11,467
<i>Councillor M M Mbali</i>	2,477	454
<i>Alderman L.L. Mvimbi</i>	12,587	1,508
<i>Councillor A R Olivier</i>	2,580	212
<i>Councillor L M Seyisi</i>	-	-
<i>Councillor J.J.N. Stuurman</i>	2,882	5,517
<i>Councillor S E Gcabayi</i>	5,883	8,062
<i>Councillor JWG Brummer</i>	-	-

**52.4 Other related party transactions**

Refer to note 44.8 for other related party transactions.



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AUDITOR-GENERAL  
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